

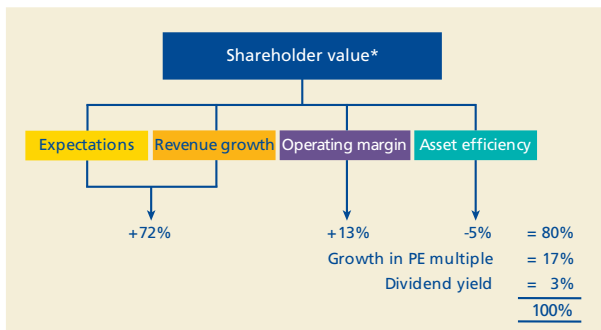
Keys to Growing Shareholder Value



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Shareholder value driven by revenue growth

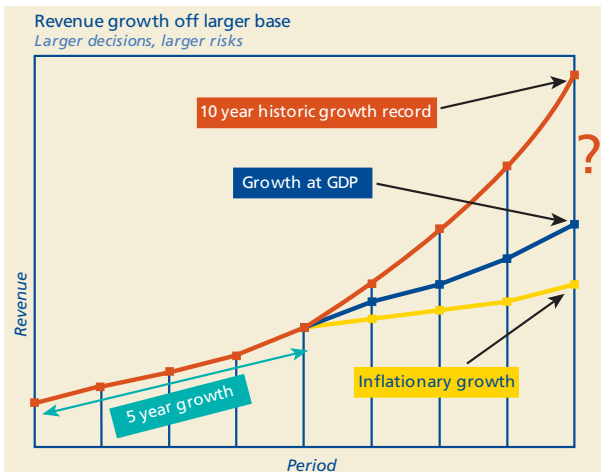
The key driver of shareholder value is revenue growth, according to research conducted by Deloitte, in collaboration with the Boston Consulting Group. This research found that the following core contributors to long term shareholder value:



*2005 BCG - Deloitte Research

Buying versus building revenue growth

The question for CEO's and active shareholders like Private Equity is: how does one achieve sustainable revenue growth? Furthermore, as the revenue base grows, there is a need for larger decisions which give rise to larger risks. Ultimately, the CEO must consider whether to build or buy revenue growth, if not both. Frequently, in larger organisations, accelerating revenue growth is more about corporate venturing and new business innovation than merely increasing volumes from within the same business model.



Revenue growth vectors

Avenues for revenue growth can be contemplated along a number of vectors or perspectives, these include:

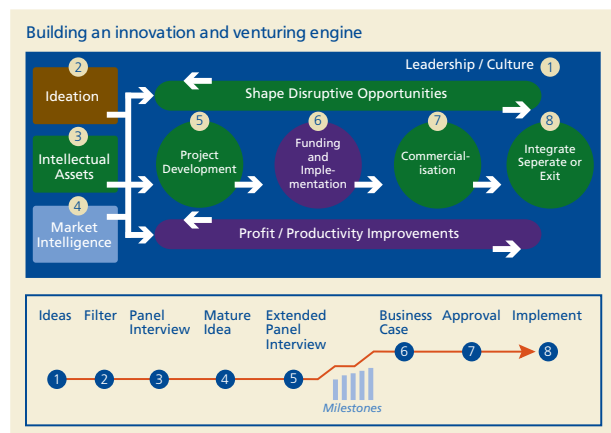
- Penetration - doing more of the same/taking a large share of the customer spend in existing business segments - which is usually limited in acquisition terms by competition regulations.
- Adjacencies – similar (adjacent) business sectors and segments to current activities (e.g., manufacturing sectors, retailing and distribution product segments).
- Value chain - capturing more of the up/down-stream revenues.
- Leveraging core capabilities into new product segments or markets, e.g., warehousing, distribution centres.
- Acquiring new core capabilities of strategic importance to the business and revenue generating in their own right, e.g., logistics, supply chain management.
- Positioning the business for the future – looking at the future business environment, taking into account global trends, filling the gaps or replacing businesses that will become redundant or less critical.



*Economic analysis (and BEE) key to successful competition filing

Business innovation and venturing

Innovation and venturing must be a fiercely robust, dedicated process which is driven by the CEO's agenda. A well-structured innovation engine is needed to collect ideas both from within and outside the organisation, put the information through a fine sieve and then incubate and commercialise the new venture. Often a quicker and more optimal way of achieving the desired innovation is to acquire a business that meets the profile or can be retooled. Examples of acquisitions in this regard are clearly evident in the IT sector both domestically and abroad, e.g., Google's acquisition of YouTube.



Shareholder value from well-executed corporate actions

Another way to create shareholder value is through proactive disposals. Most corporates expect to run businesses forever and disposals are often seen as failures, with transactions being executed quickly, cheaply and quietly. However, increasingly shareholders are demanding that companies demonstrate that they are the best parent for the businesses that they own. Best practice companies rigorously examine their portfolio of businesses to determine whether a business is worth more to others or the strategy has changed so that the business is no longer core to the group. A process of proactively managing acquisitions, disposals and venturing shows best practice parenting which has become a recent push by investor activists.

It is important to note that poor execution of mergers and acquisitions (M&A) can destroy shareholder value. A recent study conducted by Deloitte in the United Kingdom has shown that 50% of company failures are attributable to poor M&A, with 80% of those failures subsequently disposing of the business they acquired.

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A leading cause of failed deals relates to poor integration, separation planning and/or implementation immediately post the deal. Capturing the momentum of the deal into integration is essential to create a stable platform to deliver value. Failure to integrate cultures saps staff morale and distracts management.

Successful integration requires communication of a clear purpose for the deal and strong leadership that sponsors, manages and drives decisions. Integration should not divert day-to-day operations and issues must be tackled quickly. People and communication rank equally in importance with financial aspects. Deals create uncertainty and ambiguity, particularly amongst staff, and it is therefore essential to engage and talk to internal and external stakeholders frequently and consistently.

Other considerations include changes in the accounting for business combinations (IFRS3). In particular, the purchase price in excess of net asset value has to be allocated to intangibles and goodwill, where previously it was simply assigned to goodwill. The required depreciation of intangibles can significantly change the earnings profile and contribution of an acquisition to shareholder return.

Capital management and optimisation

Another factor with regard to shareholder value is capital management and balance sheet optimisation. This includes ensuring the optimal gearing for a business - an enterprise with too much equity dampens shareholder return. However, independent board members can be placed in an invidious position because increased gearing improves shareholder return but also increases financial risk. Determining the optimal gearing level can become more of an art than a science when taking into account investor confidence generally and specific sentiment about the company, and needs to be revisited frequently. Gearing requires proper risk management but organisations are in the business of managing risk, not avoiding it. The aim is to maximise risk-adjusted return to shareholders.

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