

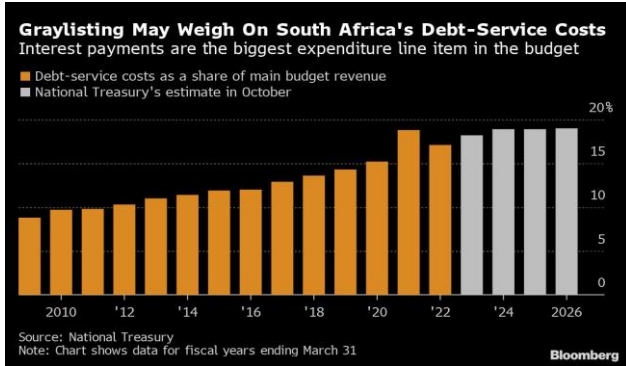
Mapping Markets & Economic Context

Challengers & Champions in an Uncharted World

Dr Adrian Saville | Professor in Economics, Finance and Strategy, GIBS
Investment Specialist, Genera Capital

@ savillea
AdrianSaville

Good Afternoon ... Here Is The Noise



Noise & News

“It’s all very, very noisy out there. Very hard to hear the tune ... Like a piano in the next room, it’s playing your song, but unfortunately, it’s out of whack, some of the strings are missing, and the pianist is tone deaf and drunk – I mean the noise! Impossible!”

Tom Stoppard, Arcadia



Let's Play A Game: "What's Your Word?"



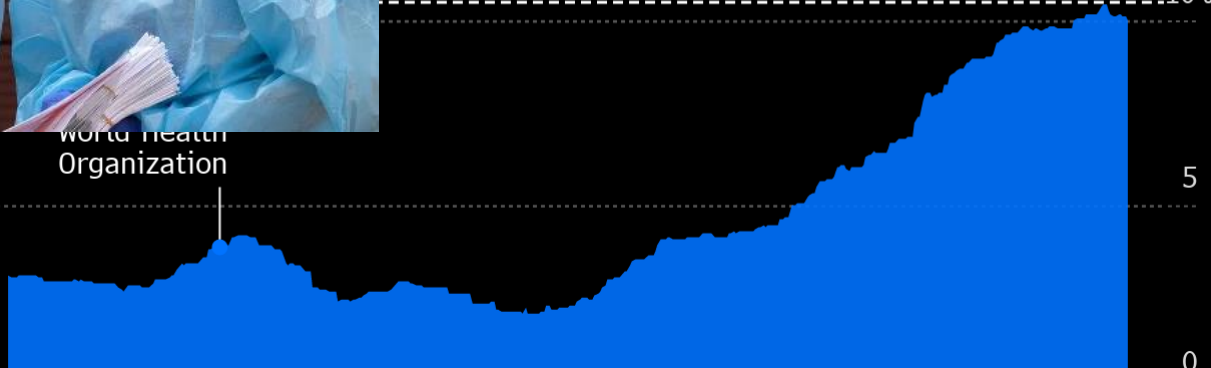
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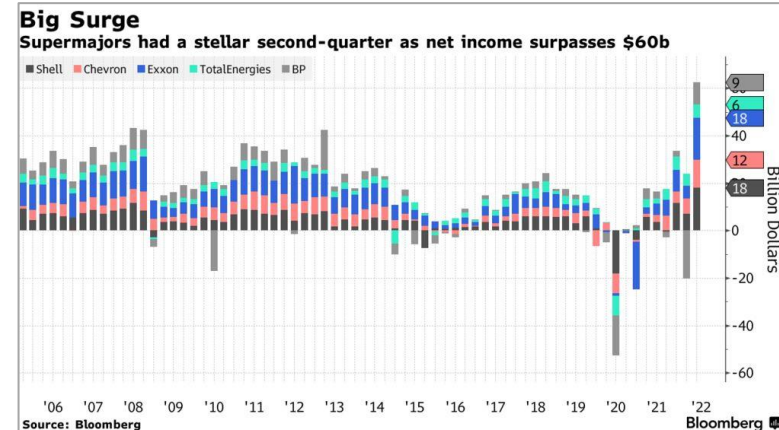
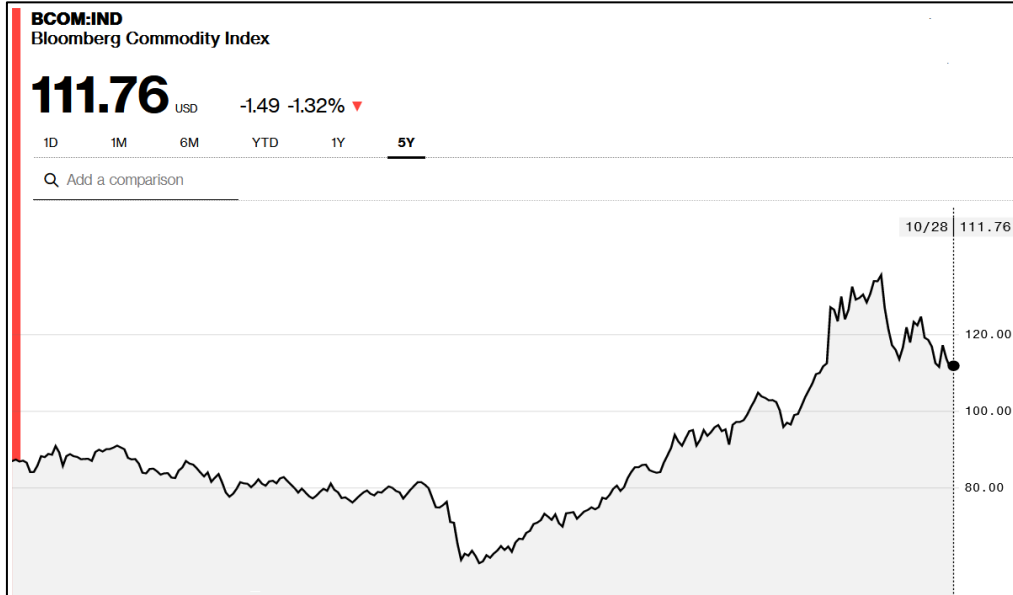
as Stalled

the annual consumer price change by country

Price gains may have peaked last month 10%



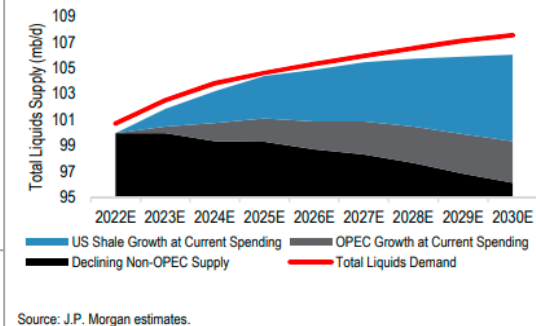
War & Oil: Same Impulse = 180° Different



Pandemic & Panic: Same Impulse = 180° Different



Figure 8: Oil: Supercycle set to play out as supply growth continues to lag demand; current spend implies 2022-30 avg deficit 0.7mb/d



“Today, the average SPAC that de-SPAC-ed since 2020 by completing an acquisition (in each case, with the approval of its investors) is selling at \$5.25, versus its issue price of \$10.00. This is a good example of a new thing that turned out to be less dependable than investors – who fell once again for a can’t-lose silver bullet – had thought.”

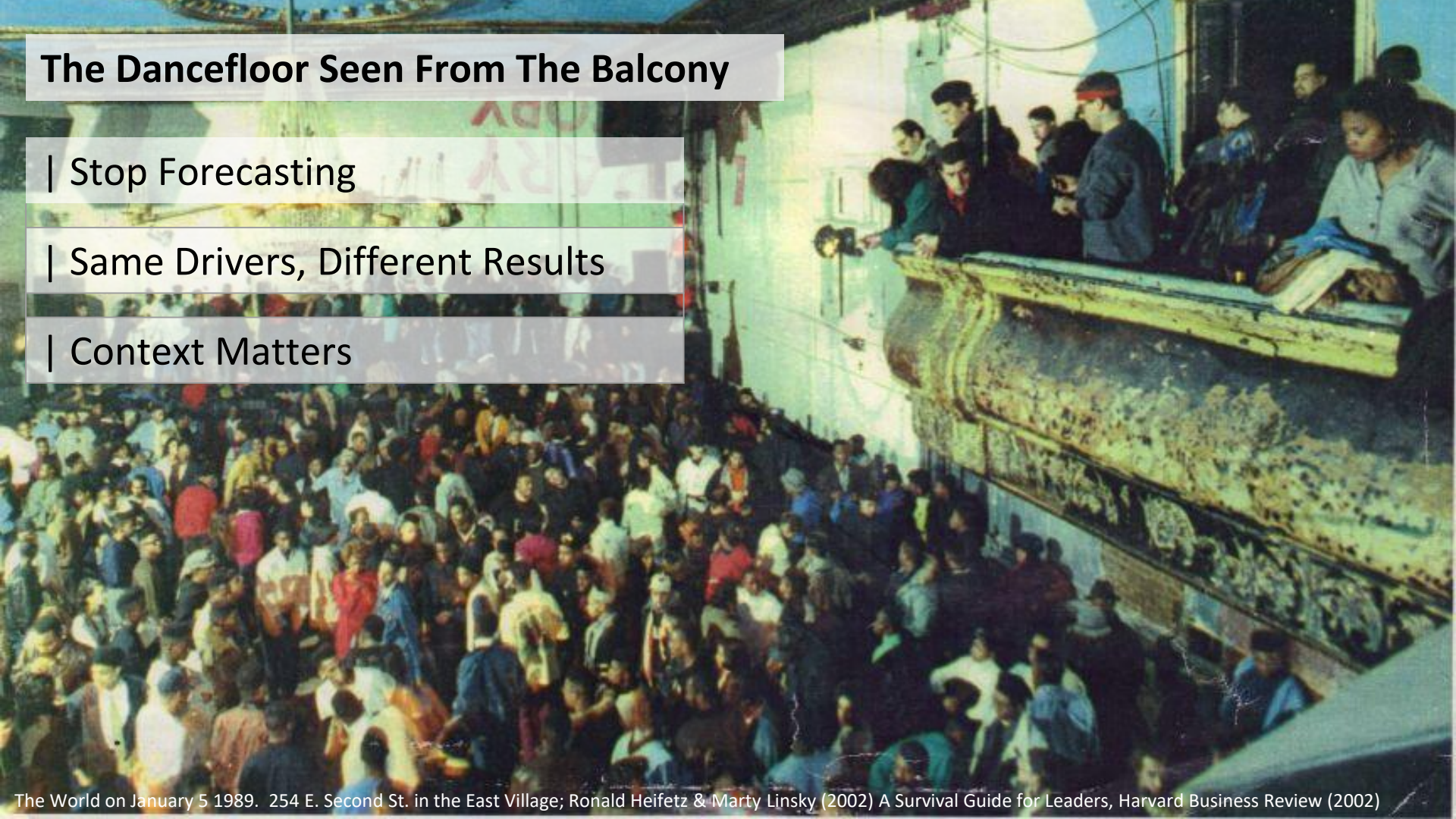
Howard Marks (2022) Oaktree Capital

The Dancefloor Seen From The Balcony

| Stop Forecasting

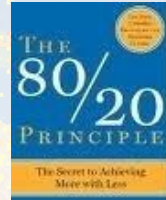
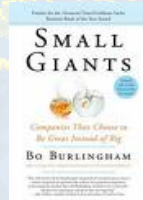
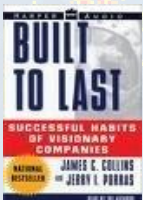
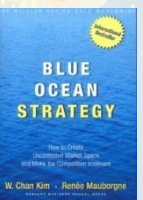
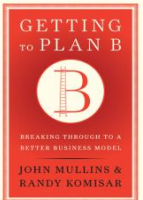
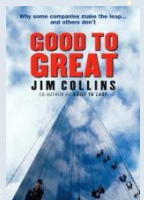
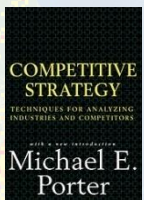
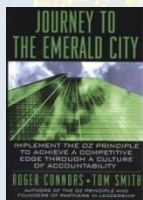
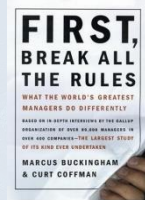
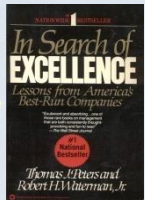
| Same Drivers, Different Results

| Context Matters

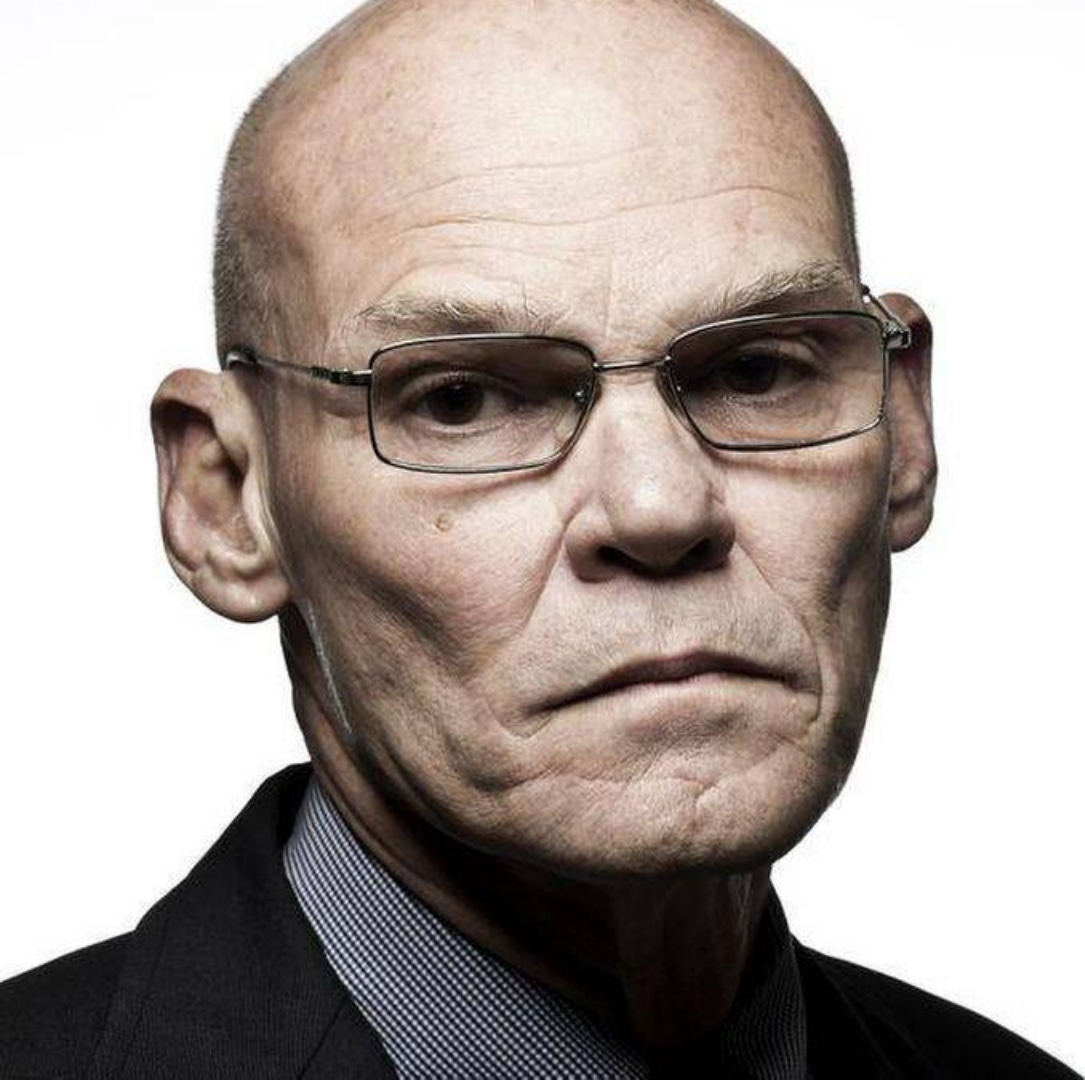


If By Magic ...

Leadership | Human Capital | Business Processes & Analytics | Dominant Market Share | Economies of Scale & Efficiency | Economies of Scope | Logistics | Leading Brand | Monopoly | Customer Clusters & Networks



If, by magic, you were allowed to pick an ingredient to build a brilliant business, what would you choose?



"It's the economy, stupid"

James Carville (1992)
Presidential Campaign Strategist

Enter The Dragon: Economic Growth & Business Miracles



Enter The Dragon: Chinese Growth & Business Miracles



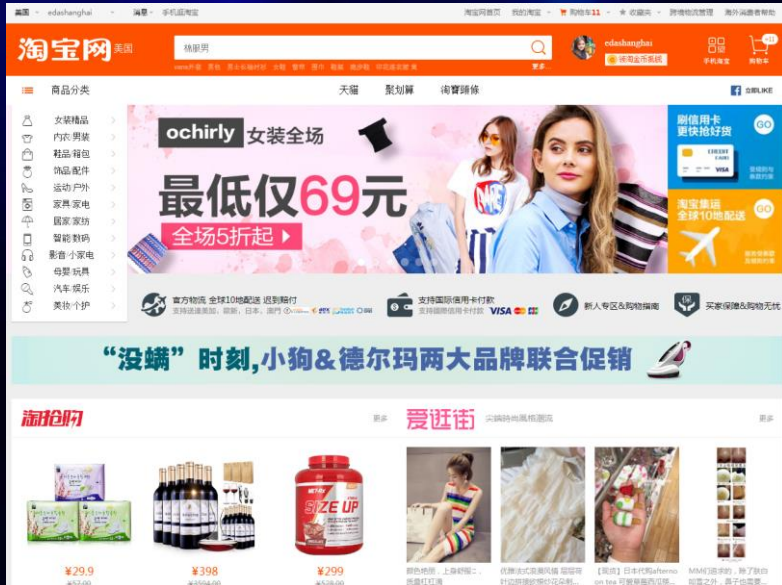


amazon



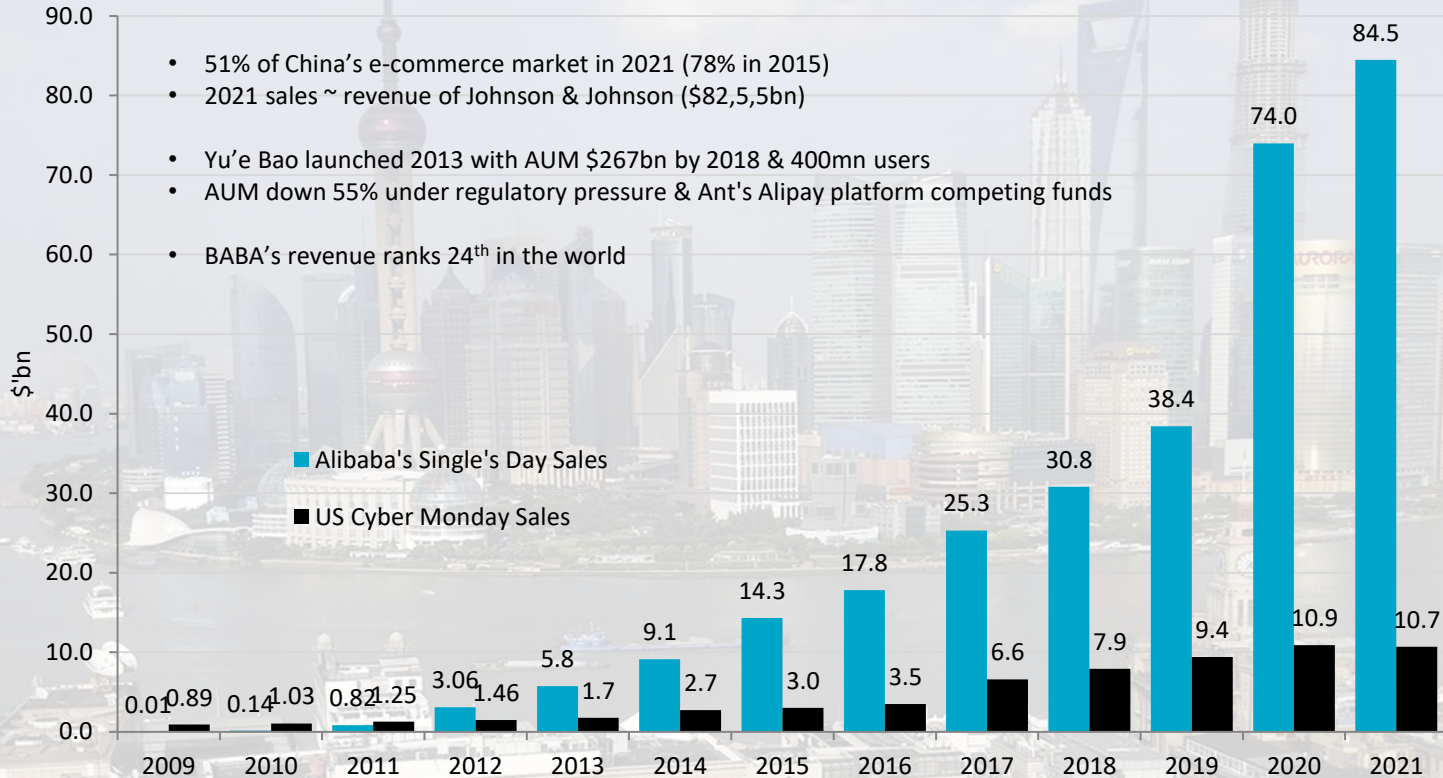
"eBay may be a shark in the ocean, but I am a crocodile in the Yangtze River."

Jack Ma (Founder Taobao & Alibaba)



Taobao (2003) is headquartered in Hangzhou and is owned by Alibaba. According to Alexa rank, it is the eighth most-visited website globally in 2023.

The Most Valuable Driver Of Business Growth



CATL

Alibaba.com

CCB

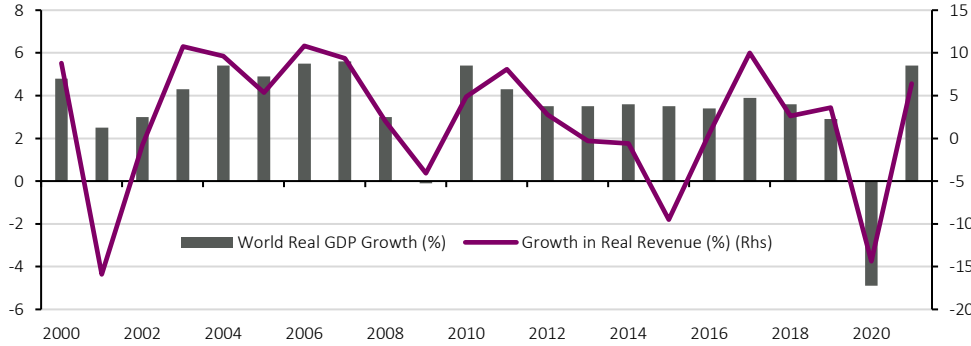
MI

HUAWEI

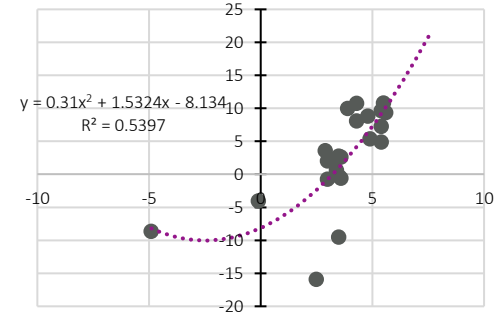
Context Matters: Growth Drives Growth



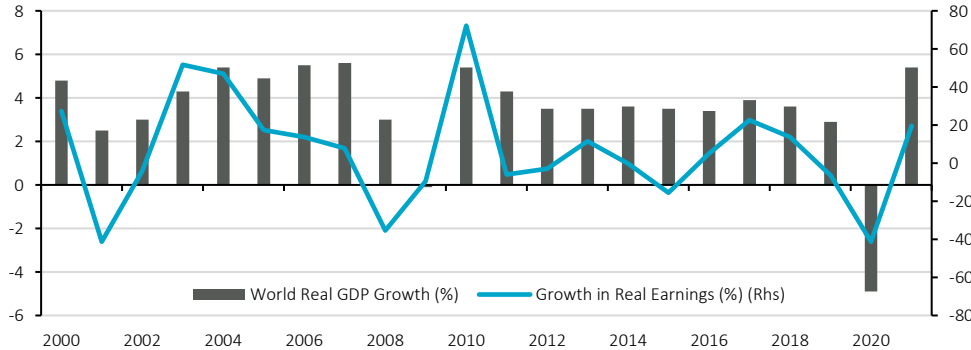
Real GDP & Real Revenue - Through World Inflation
YoY Growth 2000-2021



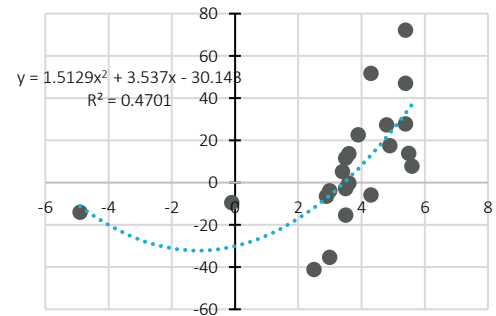
Real GDP & Real Revenue



Real GDP & Real Earnings - Through World Inflation
YoY Growth 2000-2021



Real GDP & Real Earnings



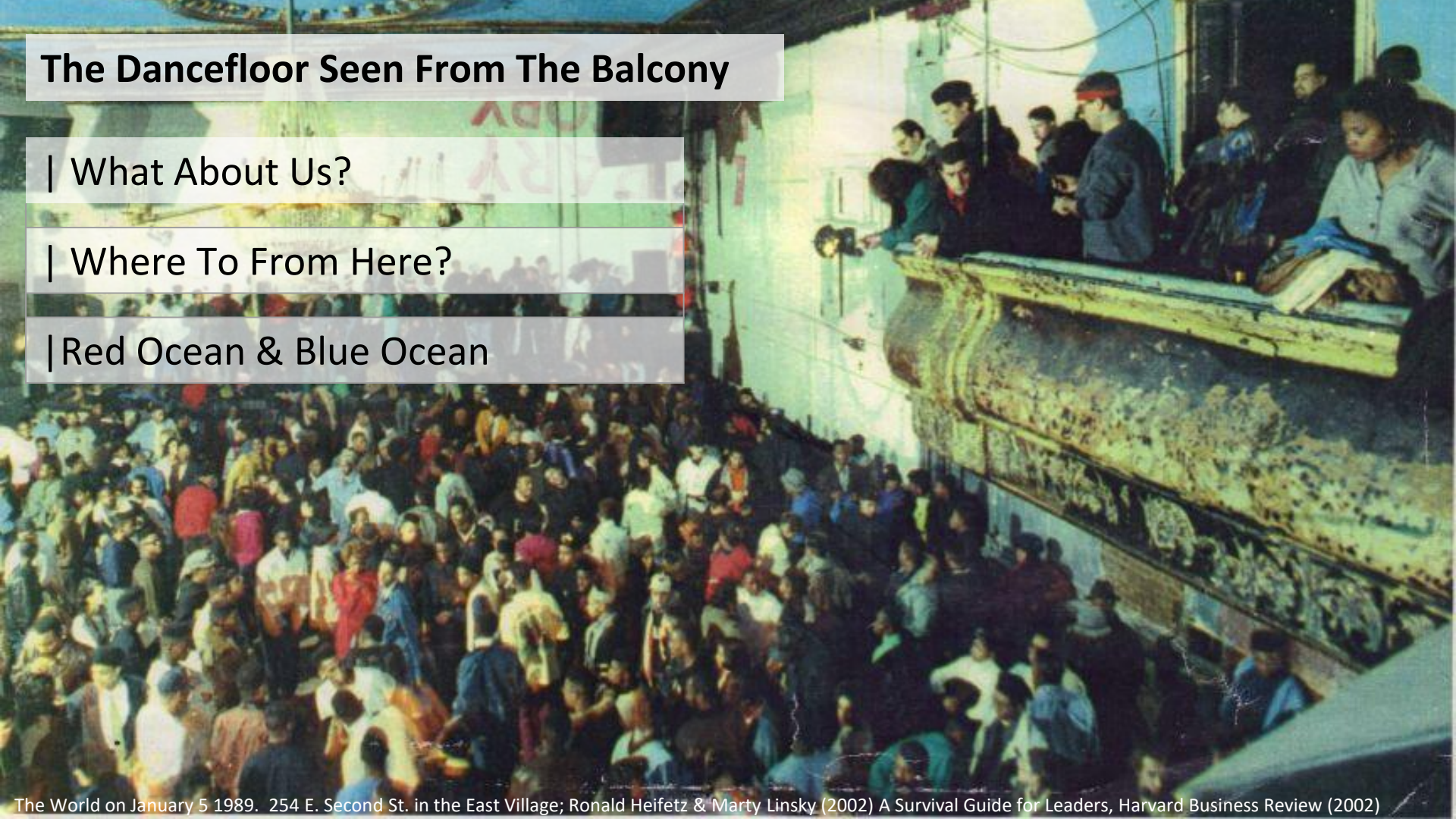
Note: Spot elasticity is the average of each year for 21 years; arc elasticity is the average from year one to year twenty-one.

The Dancefloor Seen From The Balcony

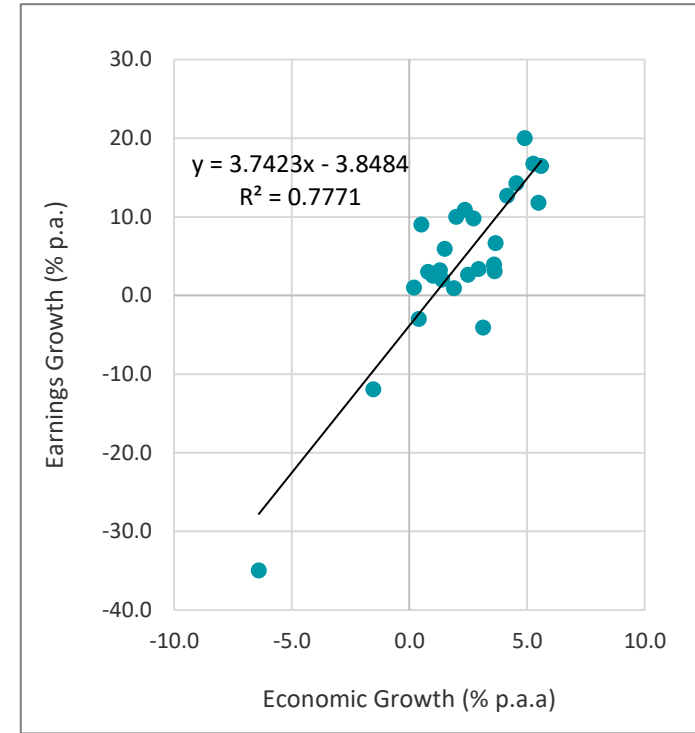
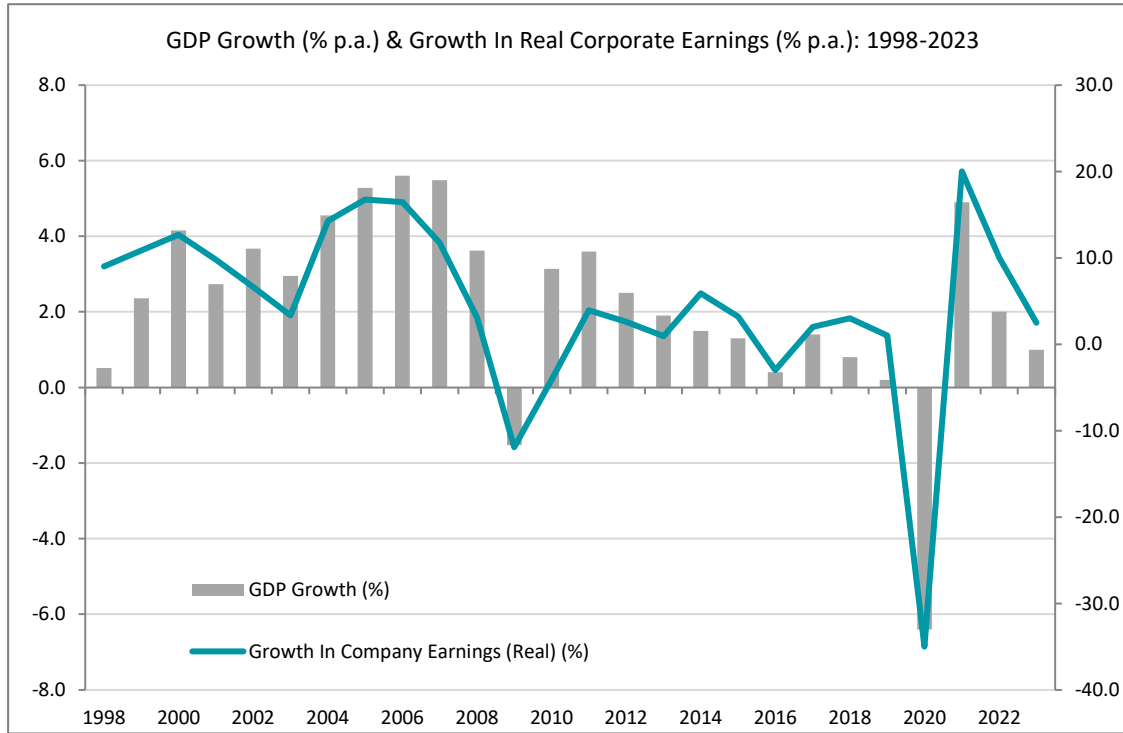
| What About Us?

| Where To From Here?

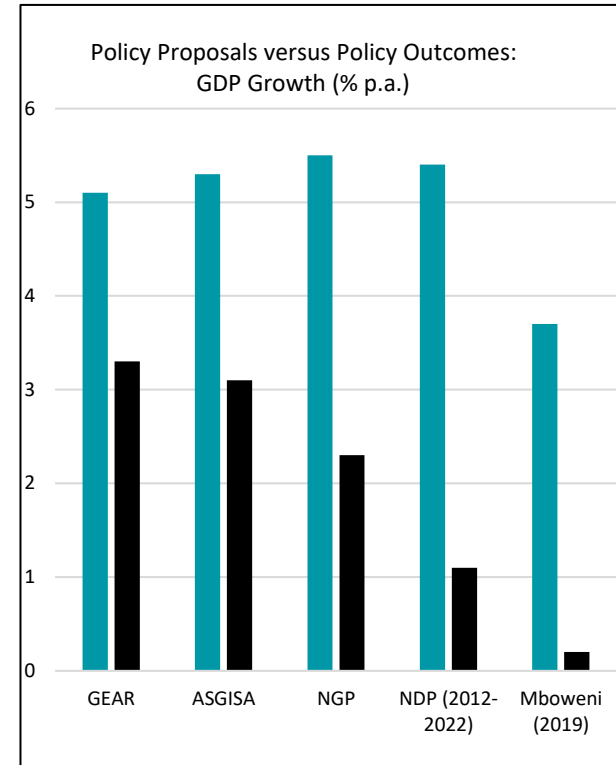
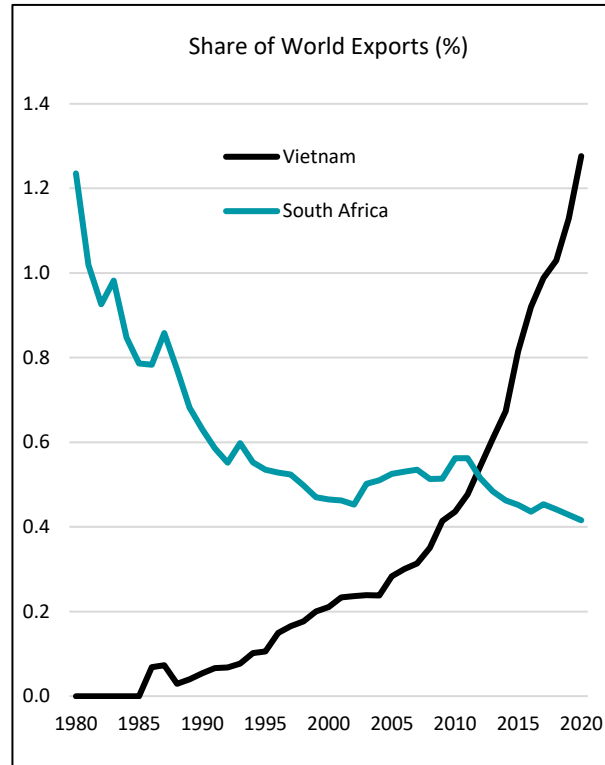
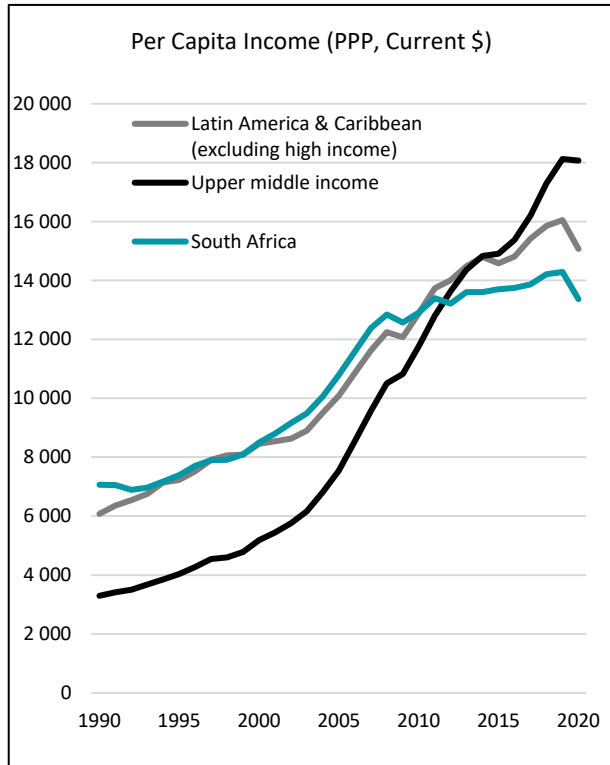
| Red Ocean & Blue Ocean



The Macroeconomic Context & Business

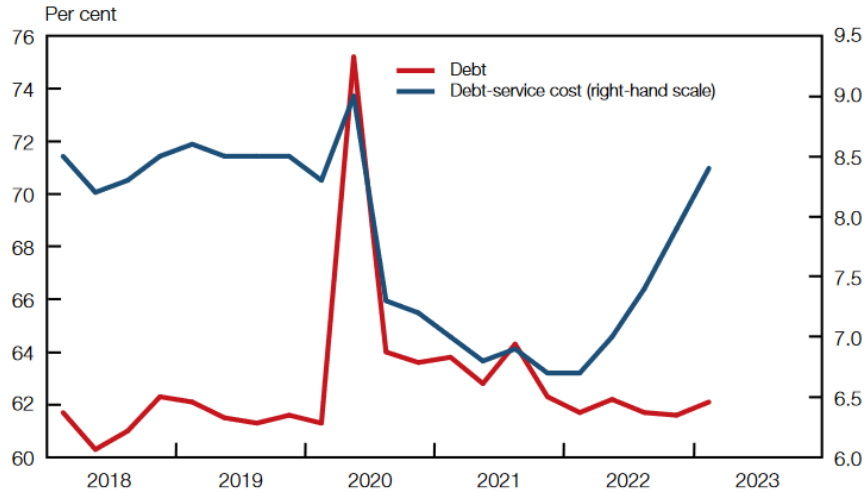


Policy Promises & Delayed Delivery

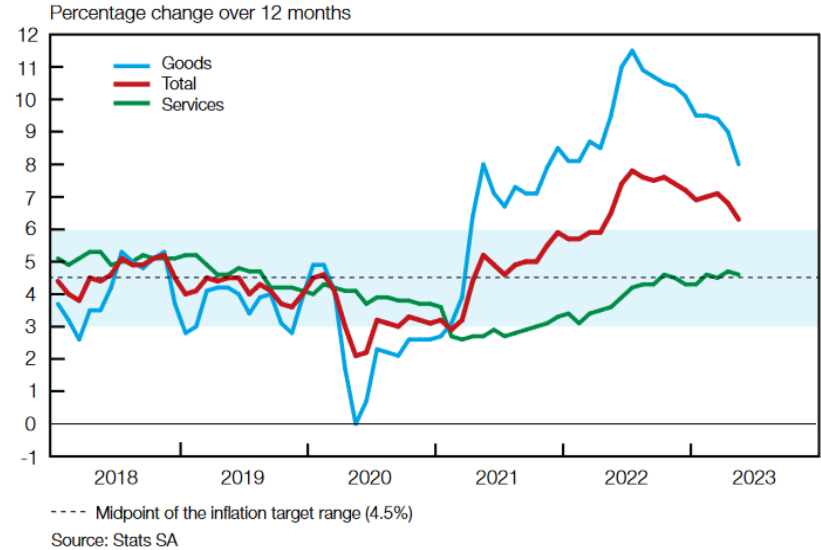


Stresses & Sectoral Strain

Household debt and debt-service cost as a ratio of disposable income

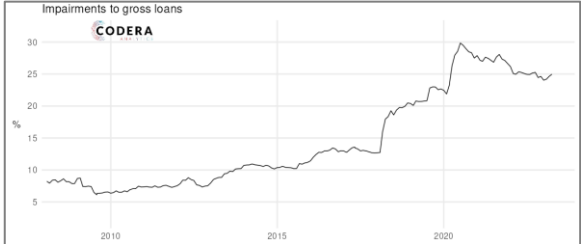
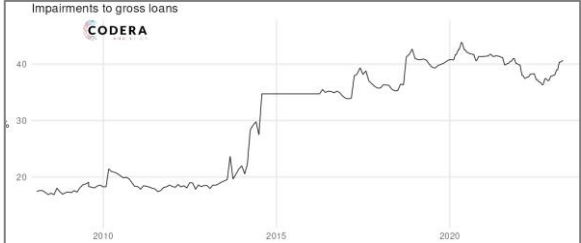
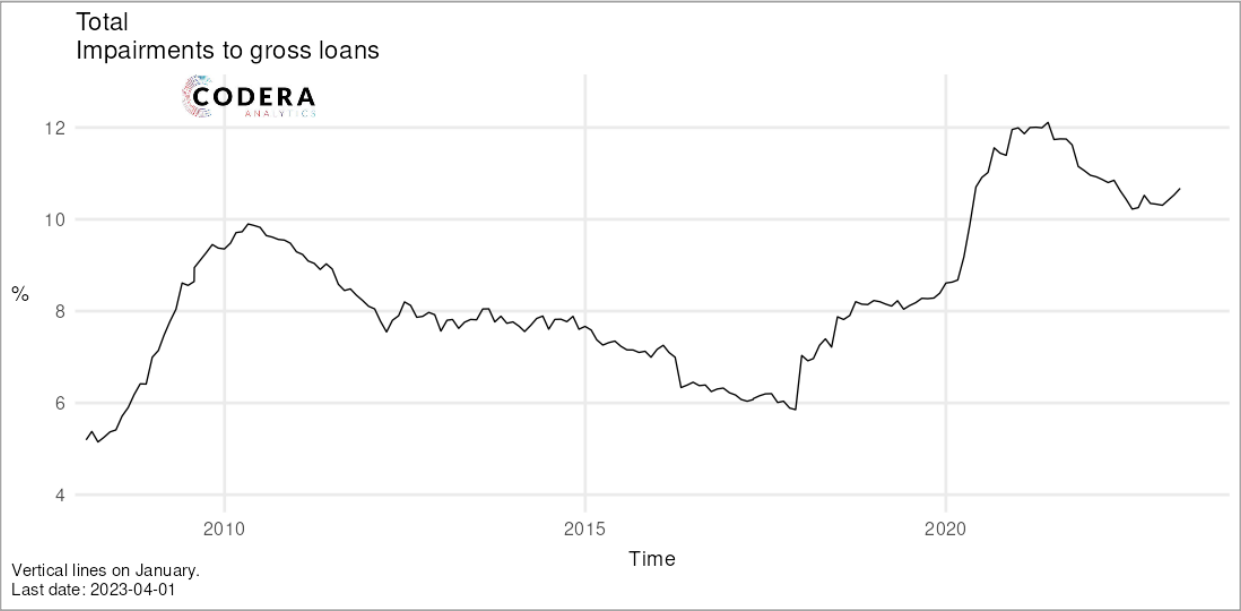


Headline consumer prices

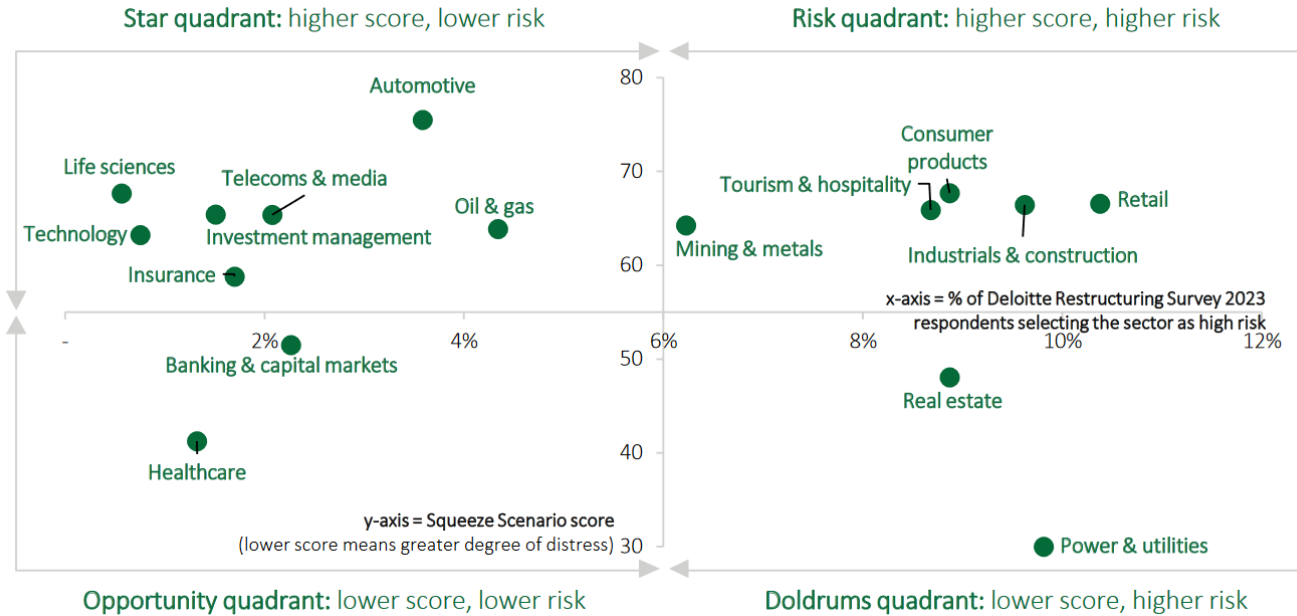


- Greylisting and load shedding (end 2024)
- Lady R; geopolitical stance and BRICs
- Elevated unemployment, and stagnant income
- Inflation erosion; rising debt-service costs; and pass-through inflation via currency
- Credit choke and NPLs; sets the scene for distressed M&A and rescue

Stresses & Sectoral Strain

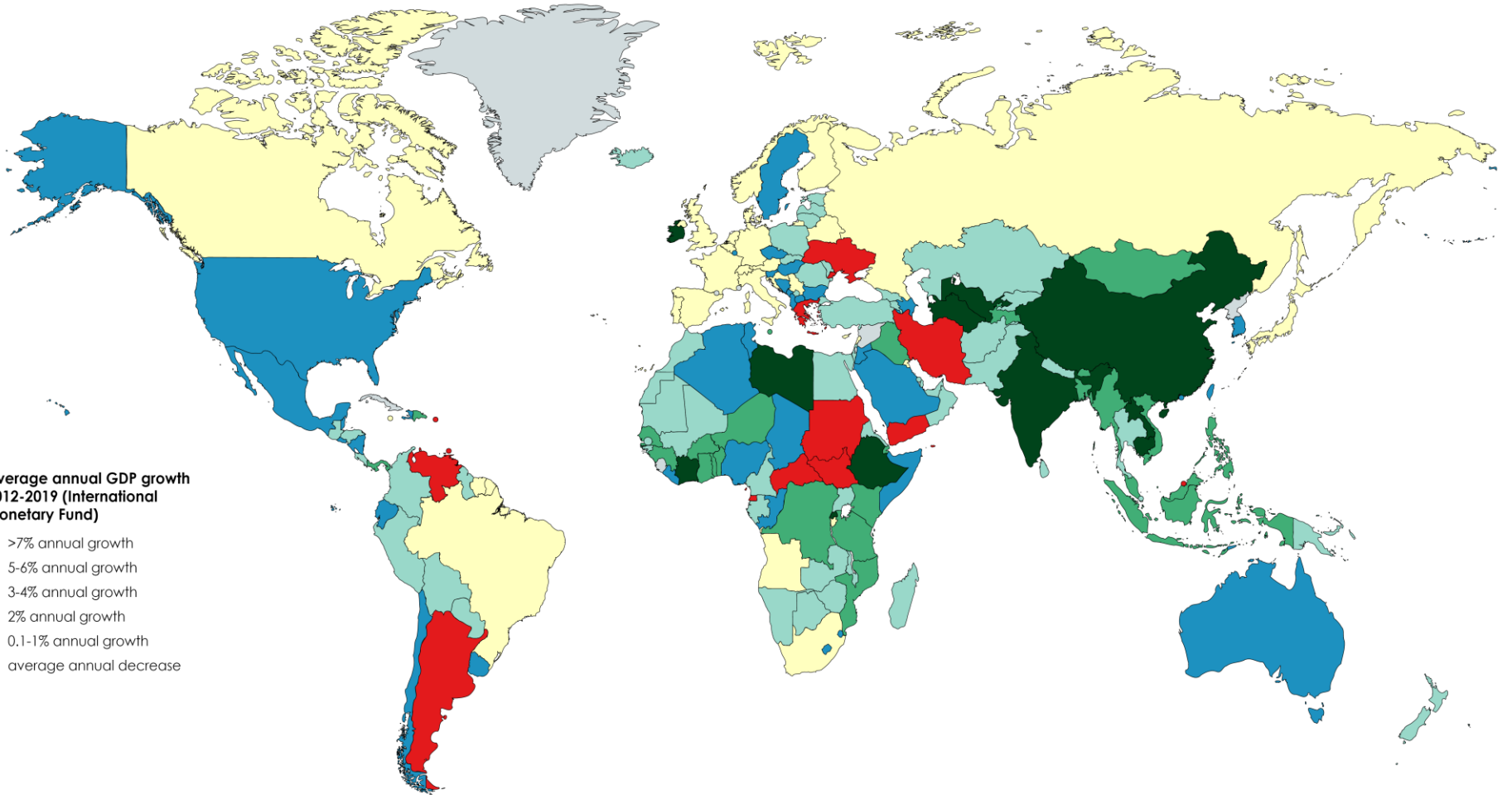


Stresses & Stars



**Average annual GDP growth
2012-2019 (International
Monetary Fund)**

- >7% annual growth
- 5-6% annual growth
- 3-4% annual growth
- 2% annual growth
- 0.1-1% annual growth
- average annual decrease

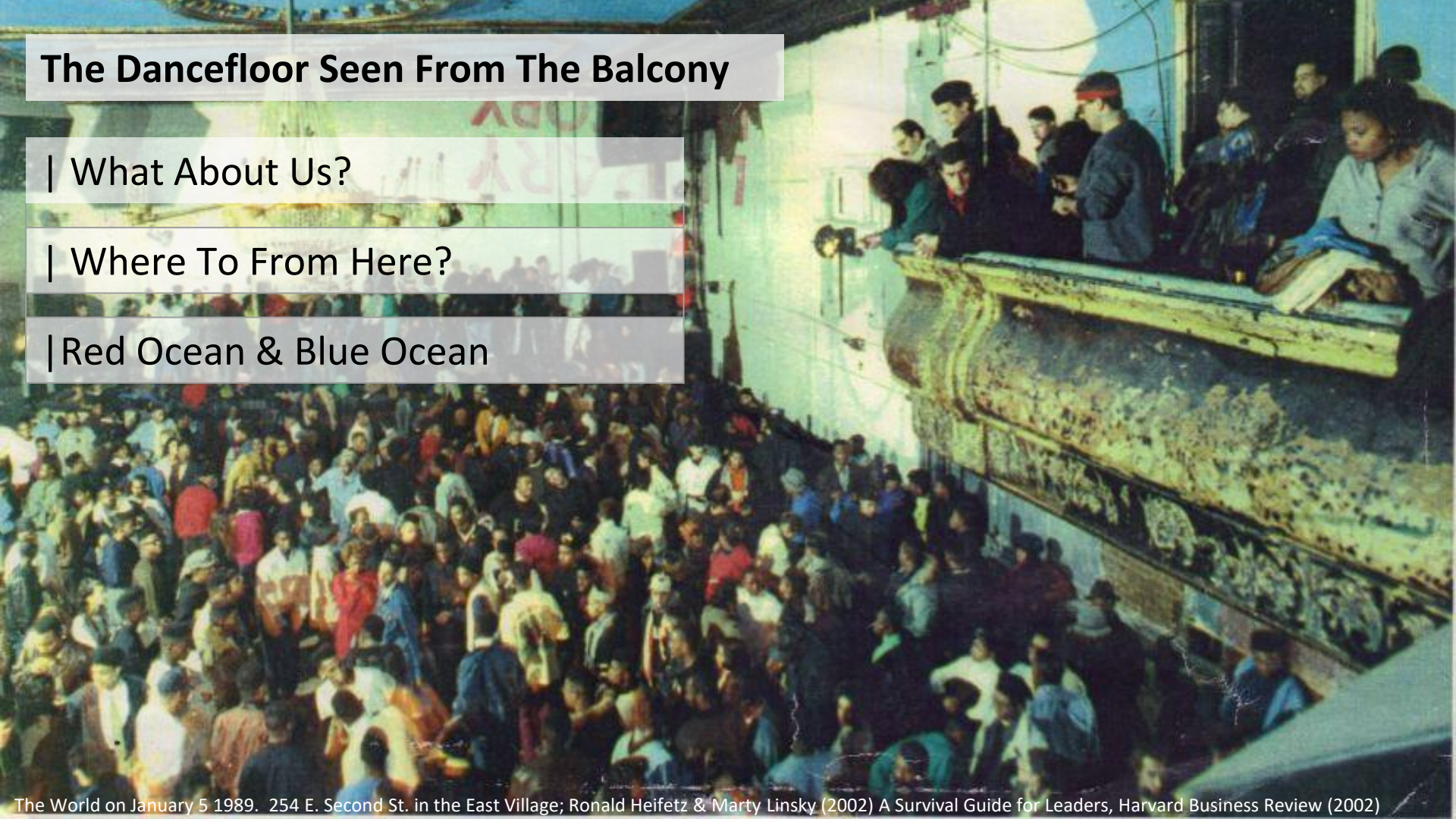


The Dancefloor Seen From The Balcony

| What About Us?

| Where To From Here?

| Red Ocean & Blue Ocean

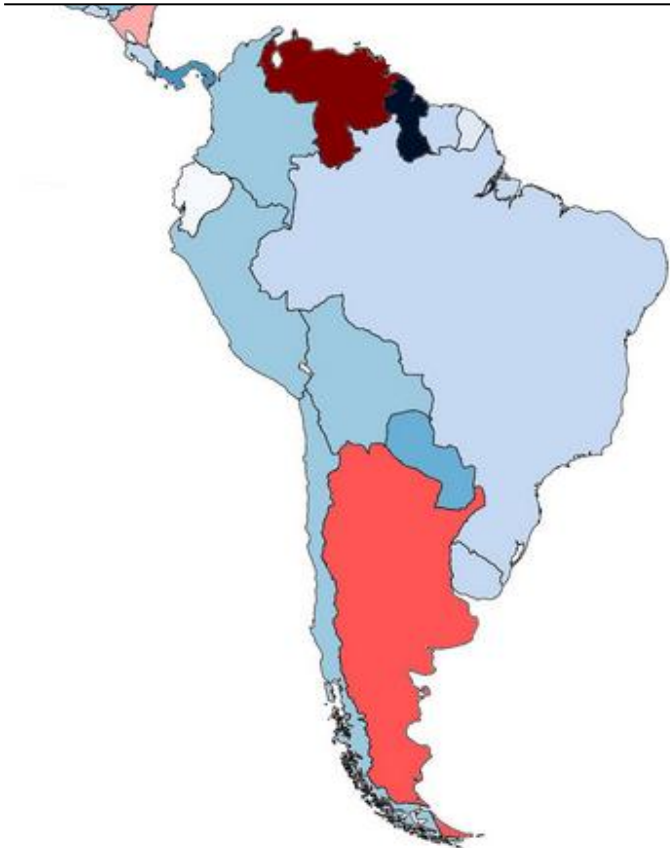


Let's Talk About Them



“We talk as if we’re Chile, we fear we’re Venezuela and we act as if we’re Argentina.”

Strategic Perspective



Caracas, Venezuela

1,9x

11,4mn

28,8mn

\$1,014

\$1,936



Buenos Aires,
Argentina

9,0x

23,9mn

44,3mn

\$1,322

\$11,683



Santiago, Chile

19,0x

10,0mn

18,9mn

\$922

\$15,923



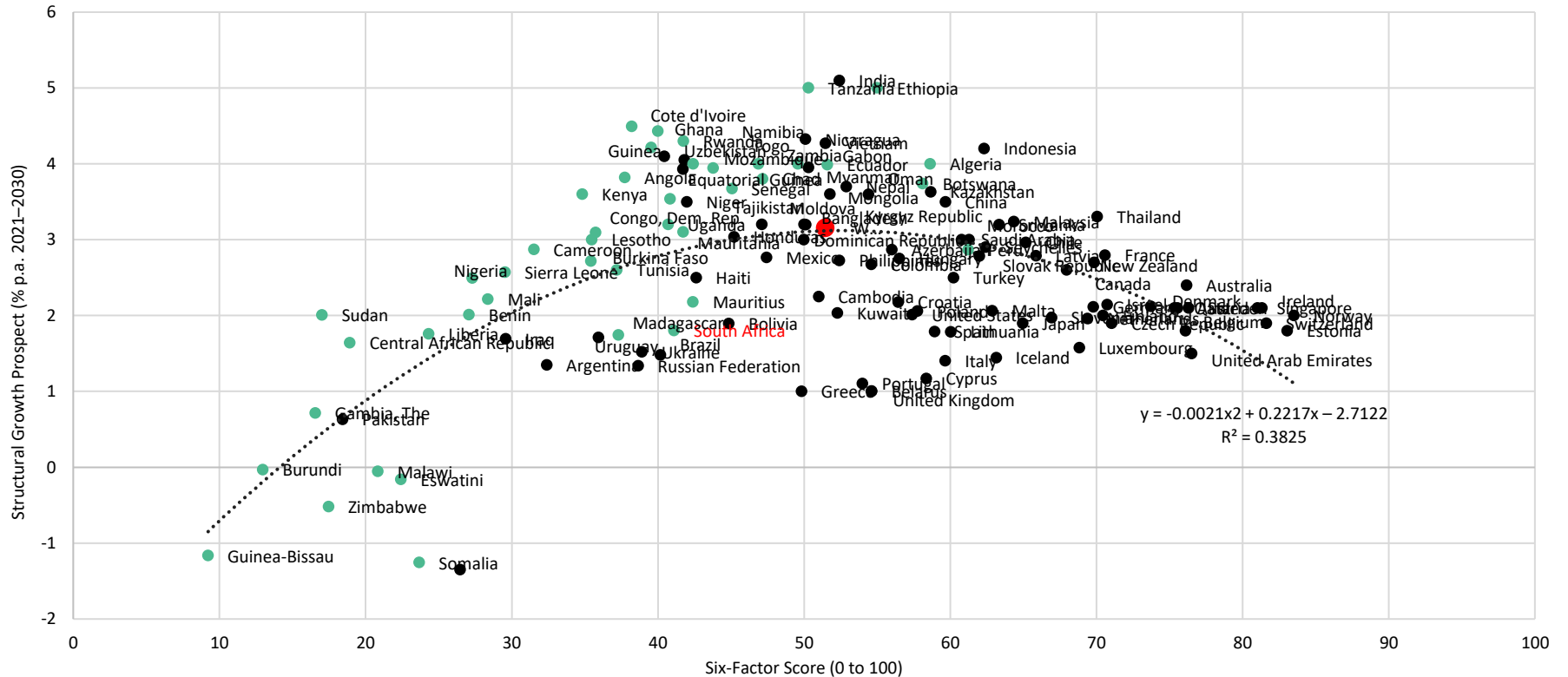
Between 1970 and 2019, world income per capita grew 11x from \$1,028 to \$11,312 and population grew 2x.

The State Of Nations

	✓✓✓✓✓ Argentina	✓✓✓ Chile	✓✓✓ Venezuela	South Africa
Nature	Small, open	Small, open	Small, open	Small, open
Primary Activity	Soft commodities	Copper & ores	Petroleum	Metals & minerals
Government	Flawed democracy	Full democracy	Authoritarian regime	Flawed democracy
GDP Growth*	1,0	3,1	-5,5	1,1
Price Inflation*	15,4	3,0	79,0	5,1
Unemployment	9,5	6,9	44,3	34,4
GINI	41,2	46,6	46,9	63,0
Debt:GDP	86,2	25,6	215,0	77,1
Saving-Investment*	15,8	21,0	8,9	15,8

* Five-year average, otherwise latest data (World Bank, 2020); Alberto Fernández (2019); Sebastián Piñera (2018); and Juan Guaidó (2019-) and Nicolás Maduro (2013-); Argentina is in the throes of its 22nd IMF bailout; Venezuela is gripped in a presidential crisis since 10 January 2019

Six Factor Growth Model: No Economic Rescue

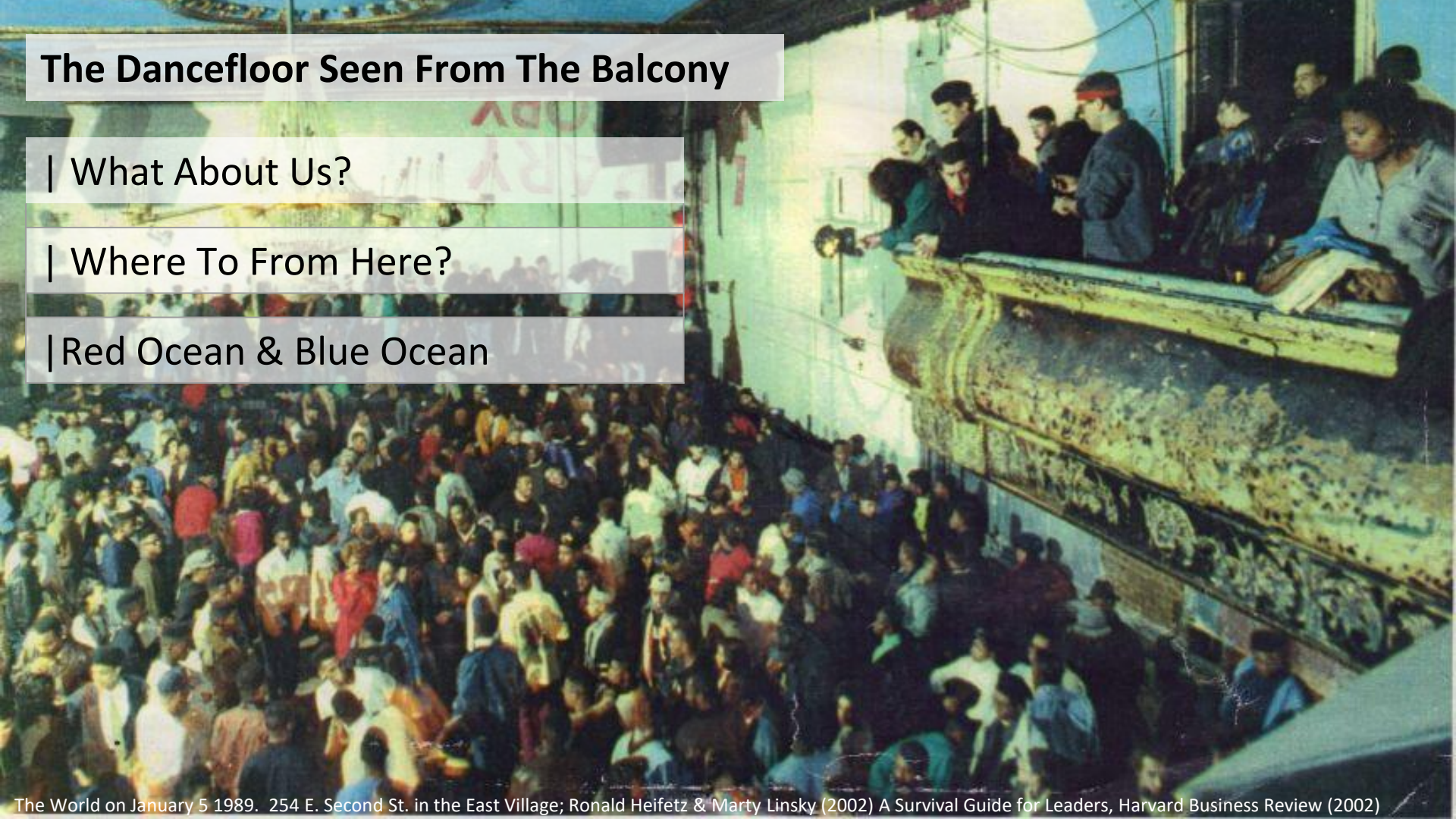


The Dancefloor Seen From The Balcony

| What About Us?

| Where To From Here?

| Red Ocean & Blue Ocean



In the second round ...
Leonard displayed a new
ability to move, punch,
grapple and infight all at the
same time.

Leonard had learnt these new
tricks in training with a new
sparring partner who idolized
Duran and imitated his style.

This got Leonard accustomed
to Duran's rough style of
infighting.

Leonard invited his new
partner to fight dirty, asking
him to throw elbows,
headbutt and throw low
blows. By the end of his
camp, Leonard could fight in
a phone booth.

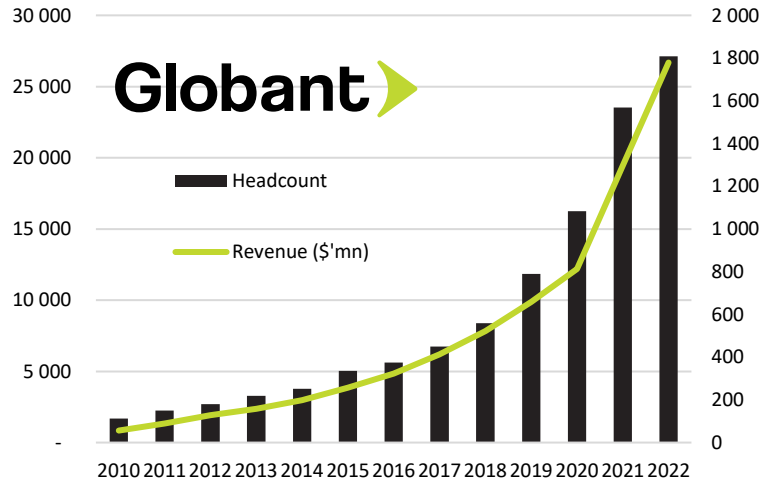
Durán vs Leonard II
"No Mas"
25 November 1980

Equip For Reality: Fit For Purpose



Equip For Reality: Fit For Purpose

Globant: Revenue (\$'mn) & Headcount



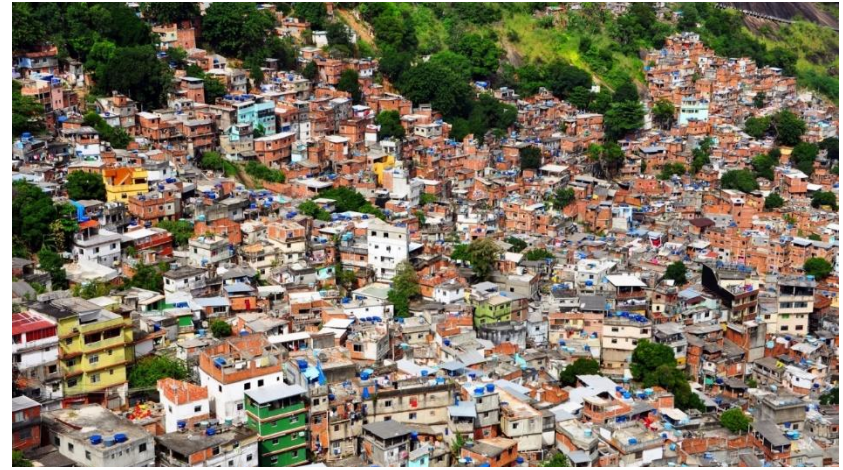
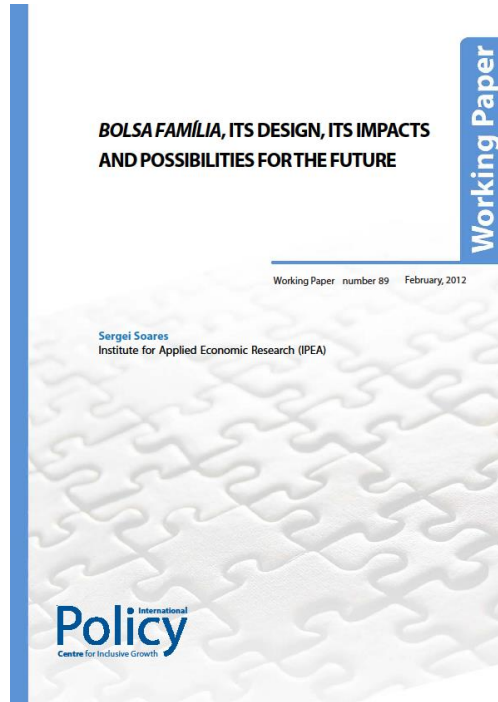
Our Innovative Solutions

<p>Autodesk</p> <p>Leveraging AI and machine learning to provide insights for construction companies, such as automatically predicting potential health and safety issues.</p>	<p>EA</p> <p>Partnering with EA to bring co-development to the next level for UFC, NHL, Battlefield and other AAA games.</p>	<p>Metropolitan Police</p> <p>To improve public access to the Metropolitan Police, we helped build an online system to reduce response times by 44%.</p>	<p>OpenBank</p> <p>Creating the first true digital bank offering a highly personalized, exclusively digital banking.</p>
<p>Airline industry</p> <p>Creating a completely new experience for air travelers, allowing the customer a unique journey while reducing their operating costs.</p>	<p>Disney</p> <p>Engineering the digital transformation for one of the largest amusement parks in the world.</p>	<p>Royal Caribbean</p> <p>Royal Caribbean is using technology to create once in a lifetime guest experiences.</p>	

7
Globant

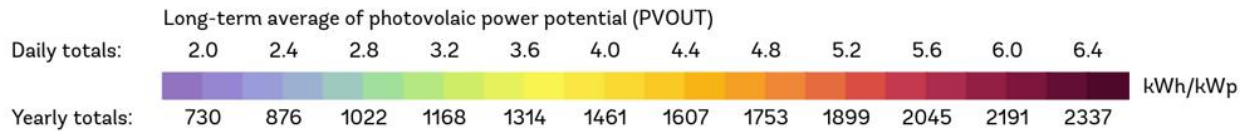
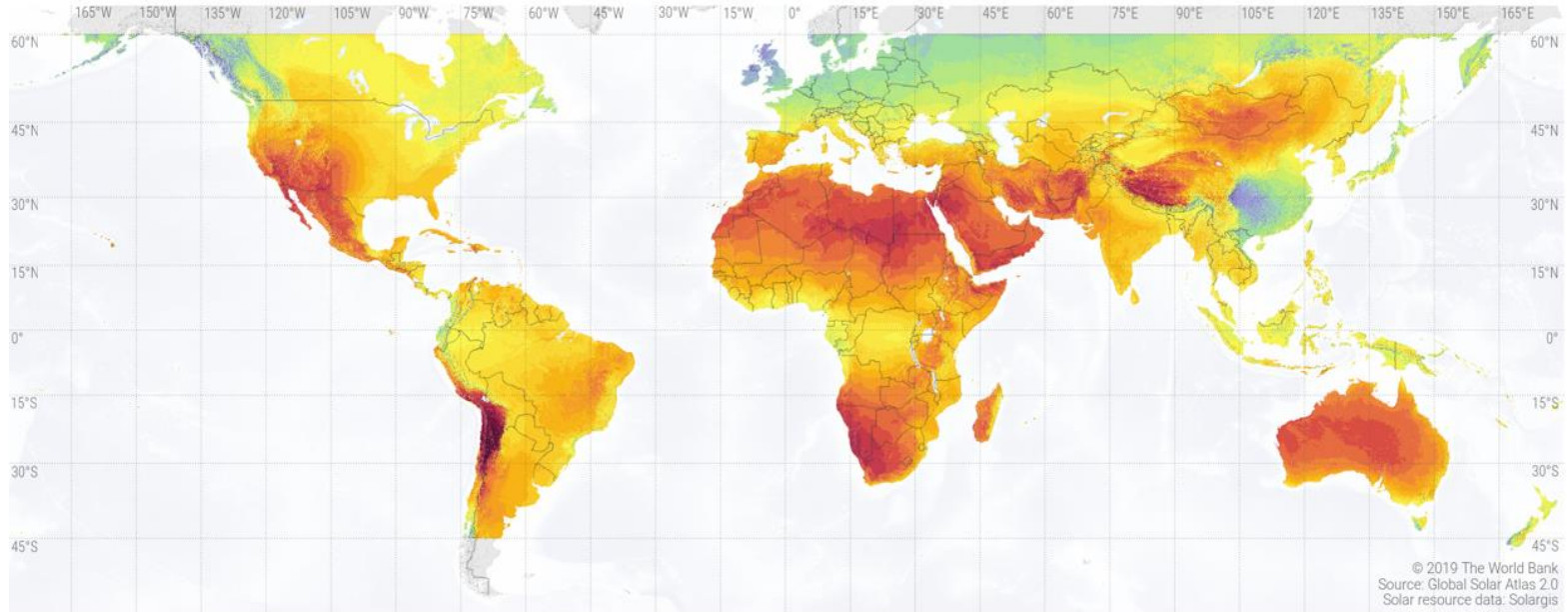
Implementation: There's Enough Money

1 Building On Our Base



Sunny Skies & Photovoltaic Irradiation

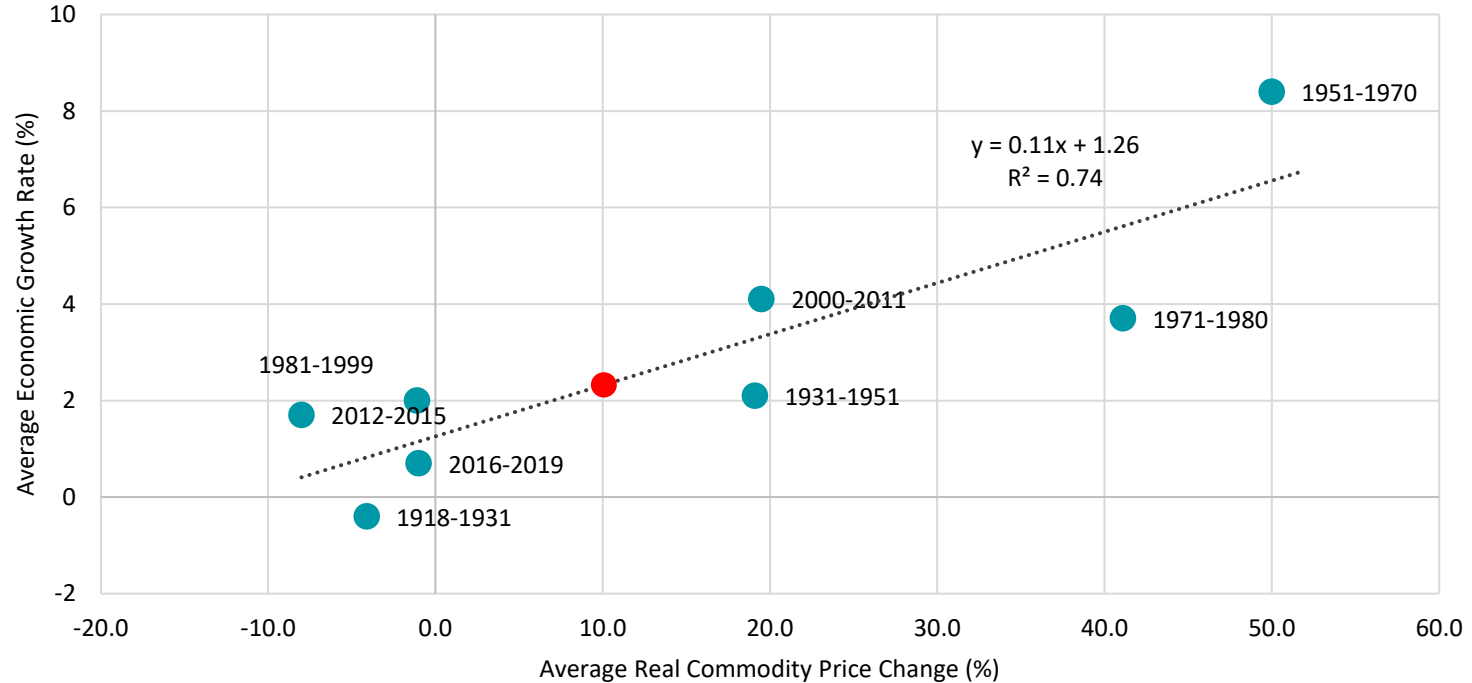
2



Commodity Tailwind

3

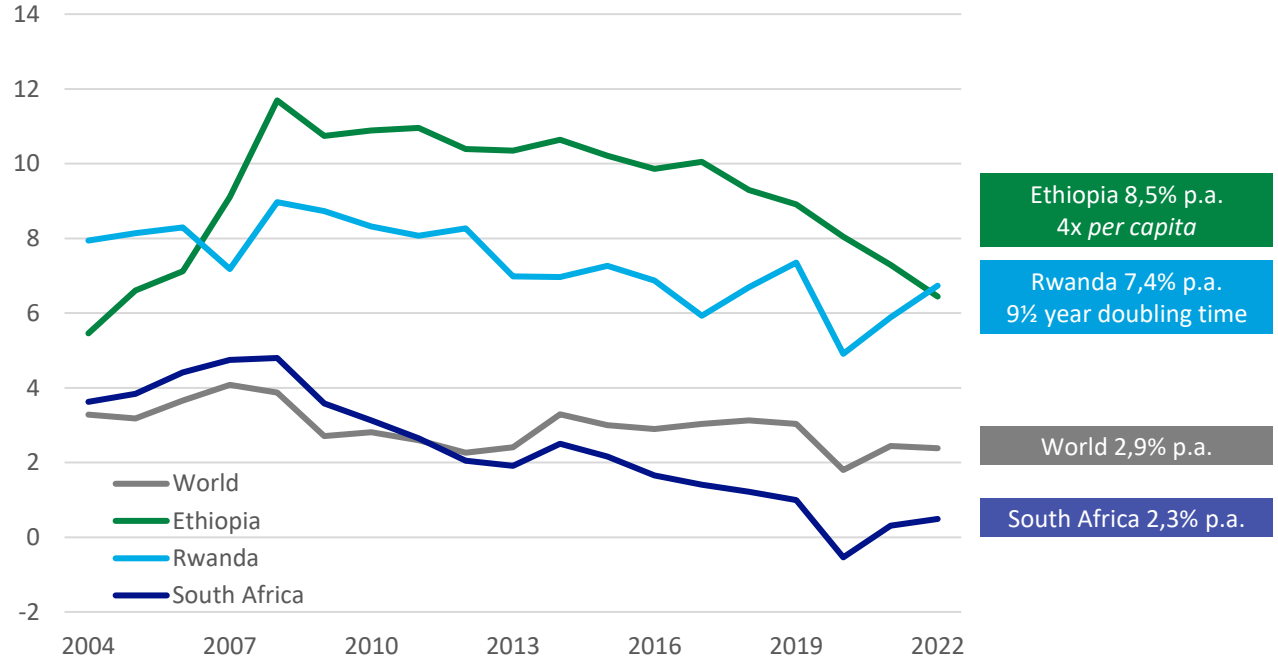
The Commodity Cycle & South African Economic Growth:
1918-2019 (Modified for Fixed Price)



Fast Neighbours

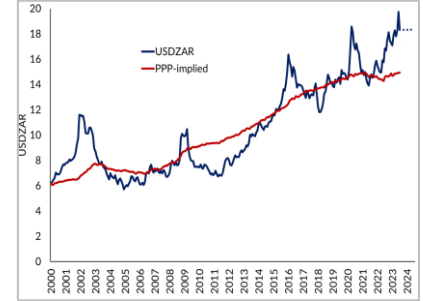
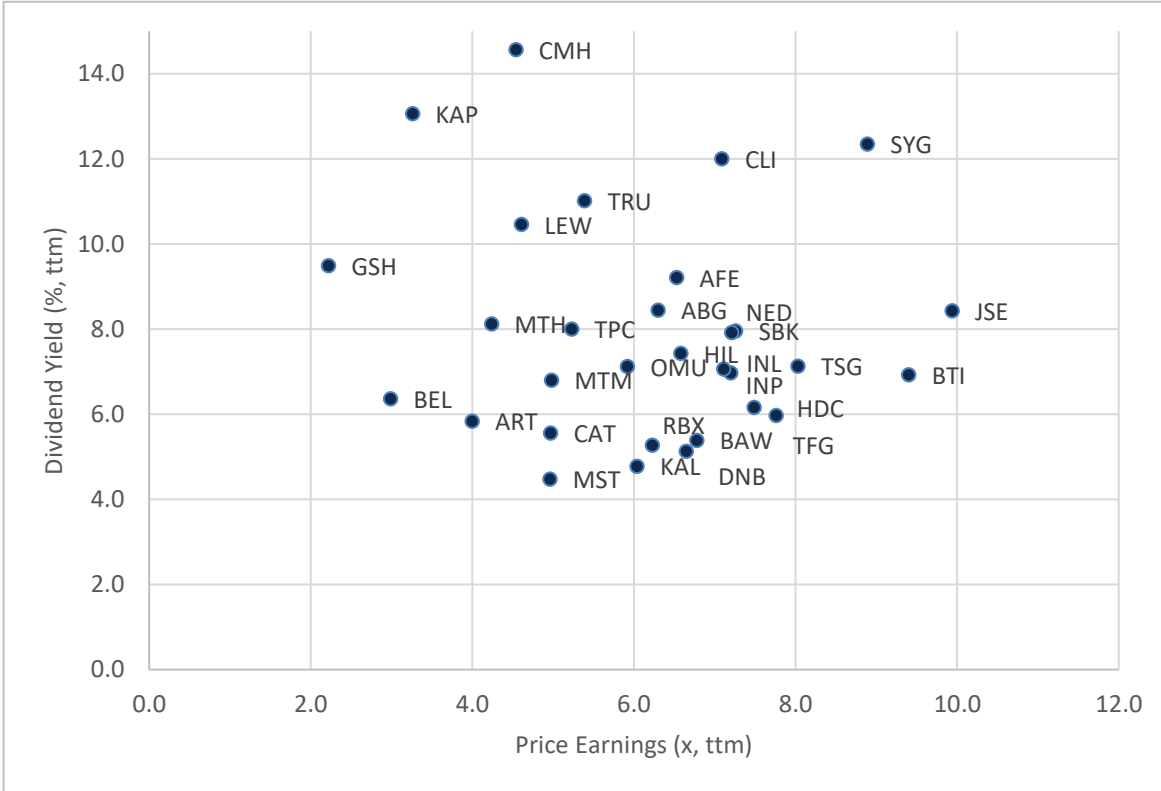


Economic Growth: 2000-2022 (Five-Year Average)



Good Assets At Good Prices: There's Gold In Them Thar Hills

5





Thank You
savillea @ AdrianSaville

DISTRESSED ASSETS M&A

July 2023

cliffedekkerhofmeyr.com



INTRODUCTION

- Macro Context
 - Post lockdown
 - SA economy
 - Business rescue
- Why are there not more distressed asset sales in SA?
 - Smaller pool of creditors
 - Fewer specialist funds
 - Restructure vs foreclosure
- The international approach – much more aggressive

STAKEHOLDERS

- Getting a deal done: the stakeholders
 - Shareholders (what's in it for them)
 - Target board (personal liability)
 - Creditors (veto rights) – secured v unsecured
- Not business as usual for dealmaking
- Understand where the benefits will land
 - in M&A, generally everyone gets some benefit
 - in distressed M&A some (and possibly all) stakeholders are losing
- Creditor power

PURCHASER RISKS

- Interim period regulatory delay
- Post sale liquidation risk
 - Overturning of sale
 - Business rescue as possible solution
- ‘Going naked’ - warranty and indemnity risks
 - W&I insurance
- Board anxiety / changes to management / business decay

SHAREHOLDERS

- What is in it for shareholders?
- Institutional shareholder flight
- More diverse shareholder base = more difficult to herd
- Private companies – are shareholders on the hook?
- Or else Rights issue? BR? Liquidation?
- Listed companies in BR: Companies Act v JSE approach
- Schedule 11 of the Listings Requirement

PURCHASER STRATEGIES

- Buy the debt
 - negotiating from a position of strength
 - complicated process
 - value paid must be covered by security (worst case scenario)
 - plan for foreclosure
- But the party across the table can always change quickly
- BR v Threat of BR

BUSINESS RESCUE

- What is BR?
- Opportunity for investors – distressed assets have become a new “asset class”
- Speculations?
- BR – Threaten or implement
- Interests from foreign investors?
- Examples



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KROLL



Business Rescue - Case Study

25 July 2023

1. Background



History

Ster-Kinekor has come a long way since its first movies were shown in South Africa in 1969. As South Africa's largest and leading cinema chain, with 65% market share, and exclusive rights to IMAX, and other market leading features. Ster-Kinekor also has operations in Namibia and Zambia



Covid “Unicorn”

Ster Kinekor is what I and the team called a “Covid Rescue Unicorn” and by that we mean it is one of the few (only) businesses that we have worked on that was operating well until the pandemic struck – it went from a business with next to no debt, strong profitability and cash conversion to being debt laden and in significant arrears with all of its key creditors



The start of Rescue

We arrived in January 2021 when the board decided voluntarily (after a year of fighting an uphill battle during hard lock down) to file for Chapter 6 Business Rescue proceedings. Existing lenders had provided additional Covid debt facilities; however, these were insufficient to fully offset the negative trading impact of Covid.

2. Key workstreams and phases

Stabilisation

- Short term cash flow model built;
- Negotiation with lenders to draw rest of Covid loan in BR;
- Agreement with landlords for moratorium

Preservation

- Integrated 3-year financial model built;
- Scenario & configuration negotiations with existing shareholders;
- Developing an accelerated M&A plan B:
 - Interested parties;
 - Investment thesis;
 - Financial & commercial Due Diligence
 - Front runner

Value Creation

- Deal structure;
- Competition commission;
- Key creditor negotiations:
 - Banks
 - Shareholders
 - Large creditors
 - Landlords

3. Criteria for selecting preferred bidder

There was a material premium between the successful bid and the second placed bid from a trade buyer. Nonetheless, it was necessary to secure South Africa Competition Commission and South African Reserve Bank sign off.

1



The deal was structured in such a way that if certain hurdles were achieved a virtual minority share of the ownership of the Group would have pass to employees (many of whom were historically disadvantaged persons and further improving the BBB-EE status of the

2



The investor consortium ultimately selected was already invested in other cinema assets globally and therefore understood the sector, which allowed the BRP to accelerate closure of the sale process.

3



“Speed of closing a transaction in distressed situations is critical”

4. Business rescue and transaction complexities

Macro issues : There were significant challenges on non-availability of good new film content, even when S.A lockdowns eased, if there were spikes in the US & UK Covid infection numbers they would hold back “content” from us.

Shareholder issues : These were extensive from landlord to key suppliers versus employee and general trade creditors through to existing lenders, shareholders and potential investors.

Stabilise

- Employees - worked with HR to create proactive feedback & forums;
- Assisted with living /travel costs to ensure company & employee alignment;
- Landlord forums & negotiation sessions to get alignment on “NEW DEAL”

Preservation

- Negotiation with banks & national treasury re: Covid loans;
- Existing shareholder negotiation “value break” & new money & scenarios;
- Review of operational cost saving – all areas

Value creation

- Decision to proceed with (or lose forever) V&A Waterfront 13 screen cinema lease;
- Keeping optionality for Namibia & Zambia “to sell, close or hold”

5. Ster Kinekor Business Rescue

“Anecdotes and Observations”

1. **“Fortune Favours the Brave”** (sometimes) – we were faced with a major conundrum. Being the expiring lease option on the flagship V&A 13 screen new cinema build. We would lose the option forever or gamble on self-funding significant capex but risking our liquidity buffer – ultimately, we went with it & it formed a significant attraction that for new investors.
2. **“Shrink to Grow” strategy** – existing shareholders were below the value break so would have needed to inject new capital – understandably their preference was to put a smaller amount in to save a reduced footprint. The benefit of having built a sophisticated financial model allowed multiple scenarios to be modelled aiding decision making & viable assessment.
3. **“If you want to travel fast go alone, if you want to travel far go together”** – business rescue is a team sport. We had a strong bench supporting the BRP & BR process. This ranged from specialist real estate advice as well as myriad of complex legal issues including disputed Covid business interruption claims. We consulted widely on many matters from Competition Commission through to labour related & transaction structuring matters.

We are proud to have made a difference

- This transaction is a great understanding for **Business Rescue** as a tool to **preserve value**.
- We provided a **safe harbour** for a business with good fundamentals which was suffering due to market factors outside its control.
- Business Rescue allowed the **cost base** to be **de-risked** and **avoided a value destructive liquidation**.
- The **preservation** of the business as a going concern resulted in **ongoing** tax revenues for the SA fiscus

800+

Jobs preserved



R250M

New capital raised



99%

Creditors voted in favour



65%

Market share



50+

Year old business preserved



“As the BRP for Ster-Kinekor it is exciting to exit Rescue and see a strong future for the business and its multiple stakeholders. We feel confident that this business is now on an exciting new growth path.

- Stefan Smyth – comments exiting Rescue

