by Pumulani Ncube

BEE deals: stay focused on the goal

By the time you read this edition of the magazine, Jala Capital would have birthed its first deal after a mere 14 months of existence. If not my neighbours in the suburbs will have to contend with me slaughtering a bigger beast than the goat that I normally offer around this time of the year in memory of my grandfather.

Though to be fair to my neighbours they haven't had much to say about seeing a goat in my yard and the odd bleat from the animal in fear of my two german shepherds raring to have a go at the delicacy.

Despite our collective banking experience, the journey to this deal has been an incredible learning curve so I thought it would be opportune to highlight some of the issues that we have gone through, and which the next generation will go through, and no doubt our predecessors went through.

A common cliché used is that the pricing on a transaction is based on a willing buyer / willing seller basis, within reasonable limits of course. However, people often forget to mention the role of the financiers, who determine the price, the tenure and the conditions for funding the transaction. I'm of the opinion that BEE analysts, commentators and opinion makers do not spend enough time looking at the financing of these BEE transactions, and as they say, the devil is in the detail.

Having been on the banking side in our previous life and now being client to the banks all I can say is that the banks make as much money as the BEE companies and at times even more! Our lesson to budding entrepreneurs is that you need to be very *au fait* with the funding mechanisms of all the major financiers. It will help you in your discussions about the value of the company that you are buying into and how you would possibly structure the transaction.

In high profile listed transactions the white vendors might require political capital, but in the market space that we play in your differentiator is the skills that you bring to the party.

We have deliberately chosen to play in the areas where the respective experience and strengths of the management team and board of directors gives us a competitive edge. As the deal flow unfolds over the next few months the market will see that we have focused on asset-based business, financial services, the food industry and consumer goods, which is where our collective strength lies.

My advice to BEE companies is that they should have a skills audit of their management and board and use this to target com-

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panies that fall within their skills set. By focusing on those industries, the BEE company is likely to demonstrate their value-add quite easily. In addition, it's easier to target companies that you have an intimate knowledge of.

Be wary of transactions bought by the average broker. Whilst brokers provide a valuable service to the client, deals bought by brokers will have been bandied around the market for everyone to see. Chances are the broker will be seeking to auction the transaction to the highest bidder without regard to the fundamentals of the business.

Being a small outfit, the last thing a BEE company needs is to spend time on an auction process where other factors beyond its control determine the outcome. Brokers have been known to promise clients double digit price earning multiples in a market where the banks will only fund multiples of around five. The result is time spent negotiating price from two different bases, -time that could be spent looking at realistic transactions.

In the investment banking game the dealmakers often have a huge back-up team in the form of researchers and analysts who help them put the proposals in front of clients. In their formative years, most BEE companies cannot afford to have this support service but this does not take away the fact that when you sit in front of the client you need to know the company better than the owners. In most instances you only get one shot at the company, increasingly we are finding that in this space we are also competing with the best-of-breed in terms of private equity companies and banks, so we need to up our game.

Fortunately, having been on the other side we know weaknesses of the competition. Being black alone does not guarantee you deal flow, you literally need to get into the client space and predict what he would want to do with his business going forward and package that with your BEE value-add. On all the transactions in which we have made headway we have brought a different angle to the way that the target company was doing business.

When a vendor decides to sell a company to a BEE partner, above everything else there needs to be a significant element of rapport amongst the partners. The vendors must be able to relate to you as a person. For us it does help to have a partner who at odd times plays off a scratch handicap, While he is trying to defend how he can have that handicap and keep a daytime job we get to establish a rapport.

I have never come across a vendor selling to a partner that he doesn't like, particularly in transactions where the BEE partner is the mandatory 25.1% shareholder. After all the partners are going to share the same bed for a number of years. Unfortunately I don't have a recipe in my bottom drawer with all the ingredients to ensure that the vendor likes you - it's all part of the research and a skill that unfortunately one acquires over time.

Speaking of time, the BEE announcements that you see in the press are a result of months and sometimes years of negotiations. An analogy would be the 100 metre sprinters at the Olympics; winning the gold medal is a result of years, sometimes decades, of hard work done in all kinds of weather. There will be good days and bad days, but if you are focused on the goal sooner or later the breakthrough will come.

Similarly BEE deals take time to conclude. There is the initial meeting period, the courting period, the honeymoon period and the reality check when you can't get funding for the transaction at the terms that you want. This is where the true intentions of the parties are tested.

However, early on in the game it is important to decide what you are good at and focus on that. As BEE companies we need to focus on a particular niche and pursue that aggressively. There will be challenges particularly in instances where you have no income and a deal outside of your target area is presented to you. The temptation will always be there to go for the deal, but like my partner says you make the most money from the bad deals that you turned down.

Since the economy is doing so well the BEE space has become highly competitive and at times a very lonely journey. I guess that's the reason why it is the road less traveled and for those who dare travel there are many casualties. I still come across BEE companies that haven't learnt that a '40-hour week with lunch break and tea break' mentality belongs in the corporate world. The reality is that for an entrepreneur that week soon becomes a 60-hour week (Monday to Friday) while weekends are spent trying to balance the demands of family life and catching up with mundane chores like filing and responding to emails.

Finally, this is a toast to all those black entrepreneurs who paved the way for us. Although we didn't quite realise what we were getting into we don't regret the fact that we chose to follow your paths. We salute you! However a word of caution, courtesy of Warren Buffet: "It's only when the tide is gone that we realise who has been swimming naked". Sadly in the current BEE environment a lot of people are swimming naked. ceo