SUNDAY TRIBUNE MAY 6 2018

Making your own business work for you

MANY ESTABLISHED BUSINESSES PREFER TO BUILD STRATEGICALLY RATHER THAN LIST THEM ON THE JSE, WRITES SHIRLEY LE GUERN

Wessel Jacobs, the chief executive officer of private equity and business advisory firm Jacobs Capital.

HISTORICALLY, Gauteng has always been the financial capital of South Africa and the hub for JSE-listed companies. As the centre of South Africa's mining industry, which has long been the engine room of the economy, it follows that it is home to the JSE and the obvious choice for head offices for all financial institutions.

Why, then, does KwaZulu-Natal – home to the country's two biggest ports and the second-largest contributor to gross domestic product – lag so far behind when it comes to the number of companies on the stock market?

At first sight, the numbers definitely don't add up – with fewer than 20 of the more than 370 listed companies, it is difficult to see KZN as the heir apparent to Johannesburg that some politicians have hinted it could be.

In the heyday of listings in South Africa, in the 1990s, KZN was home to South Africa's clothing and textile industry with many of the bigger names including Frame, Glodina and Ninian & Lester taking their places on the JSE.

Many of the province's success stories, including Mr Price, Spar, RCL Foods, Grindrod and Tongaat Hulett, remain listed, while others – including automotive equipment group T&N Holdings, infamous financial services company Tigon and the ill-fated clothing and textile company, Coastal Group – have been relegated to the past.

Both culturally and historically, KZN has been the centre of family businesses and almost an incubator of small and medium-sized businesses. Some successful listed companies that hail from the East Coast started out as family businesses, like Grindrod, Bell Equipment and Crookes Brothers.

According to KPMG, family businesses contribute an estimated 70% of global GDP and are both more resilient and better performers. This is good news for KZN.

But it doesn't follow that family businesses ultimately find their way to the JSE. In fact, some of the province's most established and respected companies remain happily independent – think of the Willowton Group, Hirsch's (the biggest privately owned home appliance store in South Africa) and Shree Properties.

Mohil Bandulal, the head trader at stock broker and wealth management business Sasfin Securities, believes that many heads of family owned companies could even go so far as seeing their businesses as a guarantee of employment for the family members who they have paid to educate in an economy where many graduates struggle to find jobs.

For stalwarts in the Durban business community such as Bandulal, the dearth of listed entities is far more complex. Back in the day, a listing was a real measure of influence and something to which many growing companies aspired.

But he points out that "the most expensive debt is equity" as companies need to pay shareholders dividends in perpetuity. With low interest rates, commercial loans are more accessible. "Rather borrow and retain ownership of your business," he says.

Also part of the cost issue is the fact that meeting the stringent requirements of the JSE can be costly.

Wessel Jacobs, the chief executive of private equity and business advisory firm Jacobs Capital, points out that compliance is onerous if a business does not have the necessary systems in place.

Jacobs Capital, whose team of investment experts crafted the buyout of Masonite, which was the oldest listed company on the JSE last year, has since restructured and rebranded it into Evowood.

Jacobs says the decision to de-list was based on using scarce resources to best effect when turning around the business.

"The company was in distress and remaining listed with the necessary regulatory requirements put unnecessary pressure on the management team. It made more sense to focus our resources on the turnaround," he says.

He believes the reason for a company to list or remain independent is multi-dimensional, with each business's individual funding requirements and individual goals determining the best course.

"A lot of well-established businesses have no dreams of grandeur. Many prefer to build their businesses strategically using cash in hand in a more conservative manner."

Business owners who want to build their organisations organically around a stable balance sheet also have a number of alternatives when it comes to funding.

Durban head-officed Corobrik, South Africa's leading clay brick manufacturer, recently announced a R800-million investment in what is the world's largest brick factory expansion project in Gauteng.

Those opting for consistent growth rather than a rapid escalation are also better suited to commercial funding or partnerships.

Jacobs notes that a better option is often a link-up with private equity firms which brings the necessary expertise to grow a business.

FNB's KZN business spokesperson, Michael Honeywell, says most listed companies having their head offices in Johannesburg has more to do with the proximity to the JSE than it has to the health of the provincial economy. Virtually all of the corporates listed on the JSE have a footprint in KZN.

"KZN's contribution to those companies listed on the JSE is critical. Many people live in KZN but commute to serve them at all levels," he says.

> **"KZN's contribution to companies listed on the JSE is critical. Many people live in KZN but commute to serve them at all levels**
> *Michael Honeywell*

Some of the biggest companies, including Sappi, Mondi, Engen and Bidvest, derive much of their revenue from KZN, says Bandulal.

Durban is also home to a number of multinationals which have no need for local listings, including Unilever, Beiersdorf (Nivea), Illovo and Toyota, which became a wholly owned subsidiary of the Toyota Motor Corporation when its Japanese parent bought out the founding Wessels family and dropped its listing in 2002.

A number of investments by large multinationals in successful local companies also saw them exit the JSE or become part of larger groups that have their head offices in Johannesburg. An example is Massmart, which was acquired by American retail giant Walmart in 2011. Included in this group is a Durban retail success story, Game.

Deloitte director and managing partner KZN, Ruwayda Redfearn, believes the success of the province has nothing to do with counting the number of listed companies.

"Despite the number of listeds decreasing in KZN, business people believe the region has potential for investment in warehousing and logistics, supply chain and distribution as key business functions – where the majority investments will happen, rather than headquarters for listed companies.

"If we want to attract more investment to the province, we need to understand… what we can offer that Gauteng and the Cape provinces cannot," she notes.

Referring to a business survey conducted by Deloitte in 2016 and her experience since then, Redfearn notes: "56% of business people surveyed by Deloitte in KZN in 2016 indicated that they would invest further in Durban and 60% intended to further invest in KZN via expanding existing operations, establishing new operations, acquisitions and joint ventures. This suggests that having fewer listings does not compromise growth."