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Royden Vice: CEO, Waco International

Alec Hogg

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**MONEYWEB:** In tonight's top story we'll ask whether another substantial new listing heralds the beginning of the final phase of the bull market – the final and strongest phase. Before we pick up with Royden Vice, who is chief executive of Waco International, a R2.5bn turnover business that will be re-listing on the JSE in the not too distant future, David Shapiro, let's just go through the theory of listings and stock markets. When you get lots of new listings, what does it tell you?

**DAVID SHAPIRO:** Well, it means that people believe that equity is at a price where you can pass it on to shareholders now. It's very seldom that you actually need cash, but I think a lot of – Donny Gordon was famous. At this time of the market, when shares were trading at very high multiples, he would have a rights issue because it was ...

**MONEYWEB:** Raise cheap money.

**DAVID SHAPIRO:** He could raise cheap money, because of expensive scrip. But, look, in terms of Waco coming on, I'm not quite sure, because one has got to look and see the company – because I know they did take it off at a time when it was under pressure. But they might have revitalised it, got it into better shape, and are now putting it back onto the market.

**MONEYWEB:** Imtiaz Ahmed, if you take a broader view, and David is hedging his bets it seems, maybe Waco has an interesting – to put it in the Chinese terms – history. It was Jeff Liebesman ...

**DAVID SHAPIRO:** The old W&A – part of the old W&A, largely.

**MONEYWEB:** Yes, well Formscuff was how he built W&A, which then became a rather controversial company before more recently the Corpcapital story.

**IMTIAZ AHMED:** Well, that's right. For me the interesting thing would be to listen to why it's being listed. Is there a need for capital or is it to get an approximate market value of this business? As David says, maybe to pass it on to new shareholders. For me it's the intention now, Alec. I'd like to understand why. Keep in mind, we've had some very successful listings. Think of Telkom, for example, where it was listed at call it R28.

**MONEYWEB:** It was given away, Telkom.

**IMTIAZ AHMED:** Well, exactly. But if you can find some of these listings that make commercial sense, and maybe if they're done for the right reasons – and you remember the reason Telkom was listed? It was for privatisation. Let's listen to why in fact Waco is being listed.

**MONEYWEB:** Well, Royden Vice is in the studio and it's good to talk to you here, first of all – the last time we had a chat you were in London – and secondly, in your new guise now as Mr Waco International rather than Mr Afrox. But perhaps to address the first of the questions that Imtiaz has – the shareholders in Waco are private equity to a large degree.

**ROYDEN VICE:** Correct.

**MONEYWEB:** And we have seen a lot of private equity firms around the world listing their investments at this point in the cycle.

**ROYDEN VICE:** Well, let me say that South Africa – you know, we have been looking very closely at Australia over the last six, nine months, and one of the big decisions we have made is to list in South Africa. But, having looked at that, you know, there haven't been many listings – one in South Africa in the last few years. You know, we talk of Telkom and Spur and Spar and ...

**MONEYWEB:** Hey, we've had All Joy and Enaleni and – shall we continue?

**ROYDEN VICE:** So I hope we're not sort of at the end of this bull run that David's referred to.

**MONEYWEB:** No, we think your listing kind of rings a bell: Hey, we're starting the final phase, because this is the first substantial listing we've had since Telkom.

**ROYDEN VICE:** That's right, yes.

**DAVID SHAPIRO:** I think that's right.

**ROYDEN VICE:** So to answer the question, "Why the listing?" Well, in 2000 we were delisted, went private and private equity investors took it private, of which there were 11 private equity investors – which is also slightly different to what has been in other places in the world. So you've got 11 major shareholders that are involved in it. Five years is a reasonable time for private equity investors to remain invested in a company, and I think we believe that we're into our next growth phase, and our next directions, and private equity have to exit at some stage and now seems to be an appropriate time. So it is about the private equity realising their investment.

**MONEYWEB:** But Royden, it's also a little like when you take out a fixed-rate bond – you're having a bet against the bank. In this case investors who are going to be investing in Waco – and there are going to be thousands of them lining up, no doubt – are having a bet against the private equity professionals.

**ROYDEN VICE:** That's correct. But you know the company – we got rid of a lot of non-core assets. The company has focused on two lines of business. We believe we've got a very strong growth agenda. I am personally remaining there, with money invested, and so I still think that is good upside. And if we talked about the marketplace, you know, and I'm sure David would concur here, if you look at all the infrastructure spending that is planned in the next four, five years – and, yes, 70% of our profitability is outside of South Africa. But we're anticipating to be a player in that, which you've referred to – the Formscraft and our SGB operations in South Africa are right in that space for that big infrastructure spending.

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**MONEYWEB:** This year, though, you have almost prettied yourselves up for listing. You have made acquisitions in the UK, an acquisition in New Zealand, and these are substantial acquisitions. The last time we spoke it was a R375m target in the UK.

**ROYDEN VICE:** Correct.

**MONEYWEB:** Royden, apart from the fact that you are going to benefit, no doubt, from what goes on in the infrastructure in South Africa, the rand-hedge element, although it might not be popular when the rand is R6.30, has to come into it too.

**ROYDEN VICE:** I am almost afraid to refer to the rand hedge, because for the last few years it's worked against us. But, yes, there is no doubt that we have earnings in the first world, and so our earnings are about 20% in the UK, 50, 55% in Australia and the balance here in South Africa, 25, 30% in South Africa.

**MONEYWEB:** Why did you decide to come to South Africa, to the JSE, rather than the Australian Stock Exchange, if you make half of your earnings in Australia?

**ROYDEN VICE:** That's why it was a very important decision, because when we refer to Australia – and I know the Australians wouldn't be happy – it also means New Zealand for us, because we have an excellent position in New Zealand as well. So we're the leading company in both Australia and New Zealand. But, well, you know, there are a whole string of reasons, but the most important was that, when we looked at valuations, if you look back about 8, 9, 10 months ago, the Australian market in terms of equity, in similar stocks to us, they were on average 20% better in terms of price multiples in Australia.

**MONEYWEB:** So you could 20% more for the shares you're selling?

**ROYDEN VICE:** In Australia.

**MONEYWEB:** In essence.

**ROYDEN VICE:** If you look at what's happened since, I guess – I've not tracked the market all the time – about August last year the South African equity market, stock market, moved here. And so what you've got is not that Australia has absolutely flattened out anything, but we just rocketed ahead. So today in the comparatives of the stocks that we look at and compare to, our price multiples are as attractive here. We are resident here, we have been managing the group from South Africa, we are South African.

**MONEYWEB:** 60% of your shareholders are South African. You even have a Sandton headquarters.

**ROYDEN VICE:** That's right.

**MONEYWEB:** How more South African can you get – well, how closer can you get to the JSE?

**ROYDEN VICE:** Absolutely, so why sort of complicate it by moving to Australia and requiring all the complications of that move when valuations are the same?

**MONEYWEB:** Royden, who are the local stocks that you would compare yourself with?

**ROYDEN VICE:** Well, we would compare ourselves to obviously some of the construction companies, like Aveng and Murray & Roberts. Some of the others would be Barloworld, Bidvest, etc. Those are the stocks – because we have positioned ourselves between really a service company, because a lot of our businesses is rental, hire, rental, manufacturing and modular buildings, as well as scaffolding and hiring it out. So that's where we would position ourselves in the service industry. And those would be the sort of comparative stocks that we would want to track. But, to be honest, there isn't an exact measure.

**MONEYWEB:** David Shapiro, your take on the likely success or otherwise of the Waco listing?

**DAVID SHAPIRO:** I have to agree with Royden. I think we're going into a phase of massive infrastructural spend. You would have heard it yesterday with Mike Lomas and Group Five, you know – the amount of money that going to be spent. We're starting to see the civil projects coming through from government, the tenders coming through, and I think that knowing a bit about the history and the product that they do produce, they are well placed. So I think it's a welcome addition to the stock exchange. We need additional stocks – we're running out of it. I think empowerment has taken a lot of the stock or equity out of the market, and it's nice to see some more coming back in.

**MONEYWEB:** They've got all the shareholders. they've got an empowerment deal.

**DAVID SHAPIRO:** Yes, I like these kinds of companies. These are not the, you know, taking the corner café and the fish and chip shops and putting it together and listing. This is a real business.

**MONEYWEB:** Imtiaz?

**IMTIAZ AHMED:** I agree with David, Alec, I think the timing is right. For me the only issue would be the pricing and to understand the valuation. I don't know if there's time to just ask two quick questions – and that's what sort of pricing would there be on this in terms of PE multiple and price to cash flow – or whether it's too early to be asking that question?

**ROYDEN VICE:** I think, to be honest with you, it's a little early to do that. You know, we're in the process of preparing the prospectus and so on, so there's still a little bit of water under the bridge there.

**MONEYWEB:** But it is going to be offered. Are you thinking of a public offer as well?

**ROYDEN VICE:** You mean in terms of retail offering?

**MONEYWEB:** Hmm.

**ROYDEN VICE:** It is one of the discussions we're having at the moment. Obviously, when you go to the institutions in turn, they've got all the private clients and that's the route to that market. And there are quite a lot of additional administrative costs for a straight retail offer. So those are the things we're balancing up at the moment.

**MONEYWEB:** Well, it could well be an indication of the way of the future, Mr Shapiro. If you go and read again the Dow theory ...

**DAVID SHAPIRO:** Yes, I agree with you, I agree.

**MONEYWEB:** Just to give you a little bit – something that everybody can understand. The Satrix 40, OK, in August last year – when Royden was considering where he would float Waco, here or in Australia – the Satrix 40 was at R9.26. The Satrix 40 – and remember, this is a share that you buy that gives you the 40 top shares on the stock market – is today at R14.29.

**DAVID SHAPIRO:** Hmm, it's 50% up.

**MONEYWEB:** OK, 50% higher. Today, by the way, it was up one cent – so the Satrix 40 actually improved today. The Fini was down 8c to R6.16, and the Indi was up 3c to R11.65. But you put that into perspective, and clearly there is a reason why we should be looking forward to this. Any timing for us on when the listing might come?

**ROYDEN VICE:** Alec, you know, we're at the start of the phase. We've made all the decisions about here – I mean that was a big, big call at the moment. I think we want some flexibility in terms of that, and so at the moment we'd rather just leave that on balance.

**MONEYWEB:** But it's going to be months rather than weeks?

**ROYDEN VICE:** Yes, yes.

**MONEYWEB:** Before the end of this year though, perhaps?

**ROYDEN VICE:** Roughly that timing, yes.

**MONEYWEB:** Royden Vice, former chief executive of Afrox, will be the chief executive of another public company – and that is the soon-to-be-listed Waco International, probably the first substantial listing that we've had on the JSE since Telkom – was it last year or the year before, Imtiaz?

**IMTIAZ AHMED:** I think it was two years ago.

