

Industrial group hopes to leave W&A debacle in the past

## Waco plans to lay more solid foundation with return to JSE

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**I**N the next few months, SA could see the largest listing since Telkom's debut on the JSE, with industrial services group Waco International making a second attempt at listing.

The company, which delisted five years ago, intends to return to the JSE and is hoping to make a fresh start dissociated from its dubious history as a part of former conglomerate W&A.

Though many market watchers have not forgotten the W&A debacle, news of the proposed listing has been well received, as Waco now appears to be a solid business that has significant promise in the light of SA's anticipated construction boom.

Waco no longer bears any semblance of its original shape, performance or management: W&A was an unwieldy conglomerate invested in a wide range of unrelated sectors, from coal distribution to textiles.

A 1997 media report says that W&A, in its glory days, "dazzled the market with intricate feats of financial engineering". But it soon came to light that it was almost buried under a mountain of debt.

Exactly how W&A came close to financial ruin under the management of Jeff Liebesman, who left financial services group Corpcapital under a cloud two years ago, has still not been explained.

Among allegations levelled at the time was that financial accounts were misstated.

After its near-insolvency was discovered in the mid-1990s, W&A was renamed Forward Corporation and embarked on radical reforms including asset sales, rights issues and debt restructuring to save the group from liquidation.

Waco, which emerged out of Forward Corporation and was already in better shape in 2000, was taken over, in a R2,4bn buyout, by an international consortium of private equity players who were led by Ethos Private Equity and including well-known names such as Old Mutual.

### WACO SET FOR FRESH START ON JSE

- Waco is a market leader in SA, Australia, and New Zealand
- It has annual revenue of between R2,5bn and R3,5bn
- The group has achieved compound annual growth in profit of about 32% over past three years
- Waco is set to benefit from domestic construction growth
- It has a large growth potential in modular building



Three years ago, the consortium appointed as CEO the widely respected Royden Vice, who founded Afrox Healthcare and serves on the boards of several large companies such as Murray & Roberts. The appointment went a long way to lifting the group's credibility.

Waco went on to become a focused company specialising mainly in scaffolding and modular building, which is popular in Australia, New Zealand and the UK.

Industrial analyst Dirk Kotzé of Coronation Fund Managers, who is familiar with Waco's history, says that only the good businesses remain from the W&A shakeout.

He says Waco is a solid business that presents other ways of investing in the construction sector — it is not only involved in construction projects, but also in building maintenance.

Vice says SA's largest scaffolding company intends to list because its private equity shareholders are ready to realise value from the investment.

Waco's revenue is estimated at between R2,5bn and R3,5bn a year. It generates most of its income offshore, mainly in Australia, New Zealand and the UK.

Scaffolding and related activities and modular building contribute equally to the business's revenue, but modular building grows more rapidly. It involves making basic elements of buildings — such as

those for schools or hospitals — in a factory. They are assembled on site.

Waco, which is among the leaders in this industry in the UK, Australia and New Zealand, says that modular building is about 60%-70% quicker and cheaper than conventional building.

Vice says Waco's scaffolding activities enjoy higher profit margins, but stresses that modular building has the potential to grow substantially.

Waco has recorded about 32% compound annual growth in profit over the past three years, and it estimates that it will grow by more than 30% for the next two years.

Waco has grown significantly through acquisitions in the past year or so.

Among Waco's latest acquisitions are the UK-based Interlink Building Services, which Waco acquired for £31,3m, and Australasian Pacific Limited, which is a scaffolding and shoring business based in New Zealand that was bought for R70m.

Waco chose to list on the JSE instead of Australia's ASX because the domestic equity market is growing faster than that of Australia, which is Waco's largest profit engine.

Another reason for opting for the JSE ahead of the ASX was the South African construction market's potential to grow more rapidly than Australia's, the company said.