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## **Biggest stock-exchange listing since Telkom's**

A scaffolding and modular building international company head-officed in South Africa is skyrocketing ahead of one of the largest listings on the Johannesburg Stock Exchange (JSE) since Telkom's in 2003.

Waco International CEO Royden Vice tells Engineering News in an exclusive interview in Johannesburg that the Elandsfontein factory has introduced a six-day-week double shift in a bid to meet soaring demand, with consideration being given to a triple shift.

Waco International is making the sizeable capital investment into its main manufacture-hire-and-erect scaffolding business line in order to take full advantage of South Africa's impending R180-billion energy-and-transport infrastructural investment in the next five years, along with the Gautrain project, the 2010 soccer World Cup and a growing vibrancy within the growing South African economy.

"Our factory's going flat out," former Afrox MD Vice says of Waco's Elandsfontein facility, which also produces for the group's Australian, New Zealand and Chilean scaffolding businesses, as well as its two South African flagships, Form-scaff, which hires and sells formwork and scaffolding, and SGB-Cape, which erects and undertakes insulation contracting work.

Half of Waco International's total of approximately 4 000 people are employed in South Africa

Only two years ago Waco manufactured scaffolding in awkward three-level rundown premises in Wynberg, Sandton, where leaking roofs interrupted production during the rainy season.

The rate then was 450 t a month.

But Waco put an end to those unsatisfactory working conditions when it established the modern Elandsfontein factory in 2003, consolidating both manufacture and refurbishment under one roof, and now producing at a rate of 2 000 t a month.

While in the past transfer pricing out of the Wynberg factory would occasionally hit the R4-million-a-month mark in an outstanding month, Elandsfontein's transfer pricing today consistently averages four times that.

Continuous order flow from Australia, on Asia's doorstep, confirms the competitiveness of the South African operation against the likes of India and China.

"Our Australian company tests the markets all of the time and South Africa is consistently found to be beating world prices," Vice assures, while emphasising, however, that Waco is very much "a hire business, not a manufacturing business" and that it has been made clear to group companies in Australia, New Zealand and Chile that they are free to buy best-priced scaffolding on the open market.

But, as if to confirm this competitiveness still further, Elandsfontein last week won an order on the open market, placed by a Scottish company for supply into Helsinki, Finland

The company is studying export opportunities into Africa and the Middle East, several in tandem with large South African construction companies, but also independently, exemplified by the company's bid to an oil refinery in Cabinda, Angola, which are likely to be followed by bidding in Nigeria. Safety is a principal Waco selling point, stemming from its work for fastidious customers like Sasol and Eskom.

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Though of a different order of magnitude, Waco's current safety approach is not dissimilar to those Vice pursued with such intensity as an executive of BOC, the global giant which daily transports safety-critical oxygen, carbon dioxide and liquefied petroleum gas on the roads of the world. In the last two years, Waco has suffered no fatalities at all, although that can by no means be said of prior years, Vice laments.

## **GDFI play**

South Africa's gross domestic fixed investment (GDFI) market, at its most buoyant since the Seventies, has Waco targeting voluminous second-order spinoff opportunities.

Waco's tactic in investing significantly is to be in a position to hire out the additional products that the capex is funding – while that capex is being spent.

Vice is able to do so with confidence as a consequence of a dramatic managing down of debtors' days, the ratcheting up of equipment utilisation rates and the initiation of short-, medium- and long-term plans to extend product, geographic and customer reach.

To take full advantage of opportunities, a 'staircase' planning approach has been adopted to provide a managed time-specific framework of growth 'step-ups' into new markets.

The philosophical view that customers are not really buying scaffolding as such, but rather access to high levels, precipitated the company's 'step-up' into the insulation, sandblasting and painting value-add, through the acquisition of Cape Contracts and the subsequent creation of the integrated scaffolding and maintenance-service company SGB-Cape, which is now continuing up the 'staircase' towards oil-industry contracts in new geographies.

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## **Modular buildings**

Like its scaffolding business line – which includes forming and shoring – Waco’s modular-building business line also involves hire, with own manufacture in this instance being essential. While scaffolding can be procured on the open market to fulfil hire contracts, proprietary modular buildings cannot, with close-to-market production also an advantage to avoid bulk transport-ation over long distances.

Hence Waco’s six modular-building factories, in Sydney, Brisbane, Townsville, Perth, Melbourne and Adelaide in Australia and in Leeds in the UK.

Of the two main ‘legs’ on which Waco ‘walks’, scaffolding is the larger contributor to overall turnover, but has less growth potential than modular buildings.

While scaffolding, forming and shoring are heavily GDFI-dependent, the lower-margin modular-buildings business has the potential to create its own momentum through varying economic conditions and has a nigh-infinite growth horizon. Both have an inverted construction niche; modular buildings generally as end products and scaffolding as intermediary products, Waco having a leading market position in the modular market in the growing Australian mining and resources sector.

While the company has yet to sell a single modular building in South Africa, Australia falls far short of South Africa’s forming-and-shoring penetration, providing scope for in-group gap-filling.

## **Early beginnings**

Intent on doing his own thing after decades of walking the corridors of corporate power, Vice left BOC in 2001 and initiated negotiations with private- equity companies in the UK and South Africa.

He ended up closest to Ethos Private Equity whose MD Andre Roux did articles with him at Coopers.

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After an earlier deal fell flat, Roux pointed Vice in the direction of the comparable Waco opportunity, Ethos having acquired and delisted the diverse industrial services group in 2000.

The leveraged buy-out was nearly two years into existence when Vice joined as CEO on February 1, 2002, personally investing heavily in his new charge.

By that stage, previous incumbent Mike Smithyman had done a super job of ridding the company of what were declared noncore assets, some of the most extraneous being Fabric Library and Macphail Coal, leaving Vice to dispose of Continental Tyre and National Bolt.

Thereafter concentration was placed on growing the current two business lines, which involved growing all activities organically, migrating the Australian-type businesses to New Zealand, advancing from tenth-largest to third-largest modular-building business in the UK and acquiring Cape Contracts in South Africa, Looking out of the window of his office on the third floor of Fredman Towers in Sandton, Vice pointed to his scaffolding around the girth of the Michelangelo Towers, currently Jo'burg's tallest building under construction.

Most Waco scaffolding work is, however, in the more-lucrative heavy industrial sectors of petrochemicals (see cover picture) and energy, together with high-profile contracts to provide stands for the likes of the annual Million Dollar golf tournament at Sun City and outdoor concerts like Pavarotti's, in Centurion.

The norm in such contractual business is for Waco group company Form-scaff to manufacture and hire and SGB-Cape to erect and install.

Waco has a leading market position in the scaffolding market in Australia and New Zealand and a start-up in Chile.

## Public offering

Private-equity companies need to realise their investments as funding life cycles reach full term and those private-equity companies have reached the point where an exit is necessary.

An initial public offering (IPO) has been under consideration since December last year, the company making two key decisions between May and June, one that the IPO would take place this year and the other that the listing would be in Johannesburg and not Sydney, raising a local cheer as loud as a rugby roar.

As Australasia represents half of Waco's profits, Australia was still in pole position as a listing domicile as late as April this year when the value of the Sydney Stock Exchange was 20% better than that of the JSE, Australia's listing frequency was ten times greater than South Africa's and Vice and his wife, Naomi, were home-hunting in Sydney.

But between the start of August and the time of going to press, the JSE rose by 50%, compared to Australia's 25%, which wiped out Sydney's valuation advantage.

Taking into consideration the onerous tax conversion from South Africa to Australia and the need for the securing of exchange-control approval firmed up the case for a South African listing; South Africa was looking better and better as a listing destination.

But the real clincher became the optimism that South Africa is exuding against the background of massive planned energy and transport infrastructural spending, the Gautrain project, the 2010 soccer World Cup and a multiplicity of spinoffs, placing Waco in line to become the biggest listing since that of Telkom in 2003. "South Africa, in our businesses, is about to have a great three-to-four years," says Vice.

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## Hybrid offer

Waco's listing will be part private-placing and part retail, taking the view that individuals tend not to buy shares in significant volumes independently in South Africa, but through private banks.

Waco will thus avoid the prospectus process of masses of application forms, opting rather for a form of private placement from an institution that is prepared to broaden very well beyond itself.

The JSE stipulates that there should be no fewer than 500 shareholders and envisaged are applications from 15 top institutions and others, making up an assumed total of 1 000.

## BEE

Kagiso has 25% of Waco Africa, which has given Waco black-economic-empowerment (BEE) credentials for the past three years.

Besides this shareholding, the company also earns points through having black directors, managers and trainees.

Kagiso has the right to obtain equity in Waco International upon listing, but is expected to remain in Waco Africa in order to reap benefits from South Africa's impending infrastructural boom.

Should Kagiso decide, however, to take up a holding in Waco International, Waco Africa would continue to retain its 25% BEE equity credentials, despite the actual percentage in Waco International being diluted to well below 25%.

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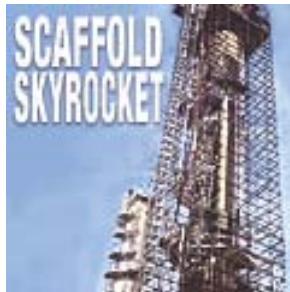
**Listed:** 1952

**Delisted:** 2000

**Relisted:** Date imminent

**Main activities:** Scaffolding, forming, shoring; modular buildings

**Employees:** 4 000, 2 000 in South Africa



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**Full name:** Royden Thomas Vice

**Position:** CEO, Waco International, since February 2002

**Main activity of the company:** Supplier of scaffolding and modular building systems

**Date and place of birth:** Grahamstown, November 30, 1946

**Education:** Graeme College, Grahamstown, 1964; BCom, Rhodes University, 1968; CA (SA), 1972

**First job:** Articled clerk, 1969

**Size of first pay packet:** R135 a month

**First job with present group:** CEO

**Career history prior to current position:** Regional director: Africa for BOC, CEO Industrial and Special Products, BOC, 1998–2001, chairperson and MD Afrox, 1993–2001

**Value of assets under your control:** R3,3-billion

**Number of people under your leadership:** 4 000

**Management style:** Teamwork and inclusive style, holding people accountable and responsible for their patch

**Personal best achievement:** Starting and listing Afrox Healthcare

**Professional best achievement:** Turnaround of Waco International

**Person who has had the biggest influence on your life:** My mother and my wife

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**Person who has had the biggest influence on your career:** JB (Beau) Sutherland

**Person who you would most like to meet:** Margaret Thatcher

**Businessperson who has impressed you most:** Jack Welch

**Philosophy of life:** Continuous improvement

**Biggest ever opportunity:** Coming back to South Africa

**Biggest ever disappointment:** No comment

**Hope for the future:** Stability and a strong healthy economy are maintained in South Africa

**Favourite reading:** Biographies

**Favourite TV programme:** Boots and all

**Favourite food/drink:** French food, whisky

**Favourite music:** A wide variety, from jazz to classical

**Favourite sport:** Cricket, rugby, golf

**Favourite website:** None

**Hobbies:** Wildlife and business

**Car:** BMW 745i

**Pets:** Cat

**Miscellaneous dislikes:** 'Môre is nog 'n dag' mentality

**Favourite other South African company:** Afrox

**Favourite foreign company:** Motorola, 3M

**Married:** Naomi France, 1972

**Children:** Gavin, 30; Natalie, 28

**Clubs:** Johannesburg Country Club, Rand Club

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