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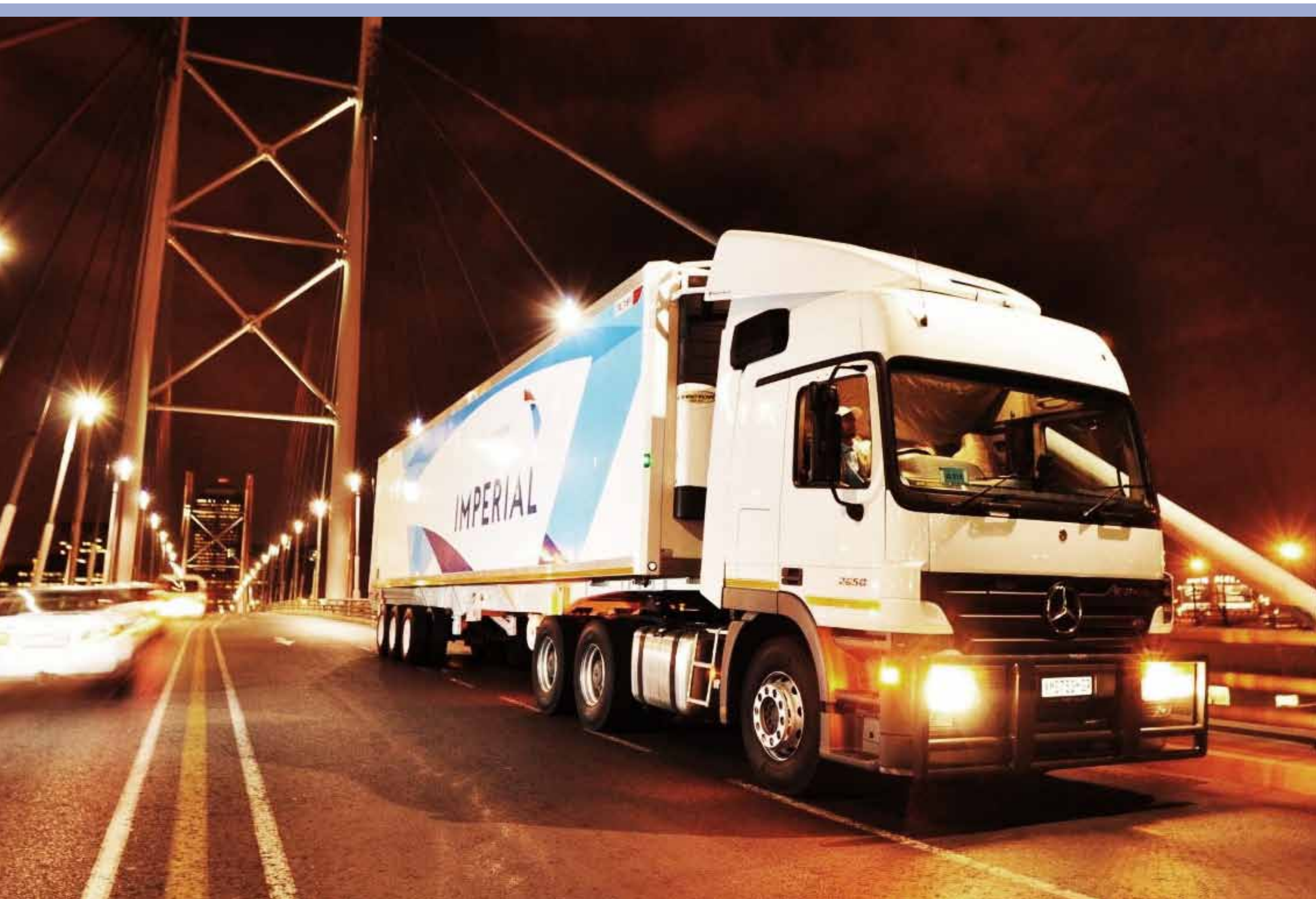


INVESTING IN AFRICA

A restructure in 2008 has transformed the fortunes and profile of one South African organisation completely, as Alan Swaby reports


Imperial's logistics businesses account for one third of all sales

The name is the same. Many of the business sectors and activities are the same. But the profile and vision of Imperial Holdings has undoubtedly changed from what it was five years ago.

With a turnover last year of R65 billion, Imperial is South Africa's 12th largest company by turnover. It employs over 40,000 people but it's a much smaller and more focused organisation than it once was. "For decades," explains Mohammed Akoojee, executive responsible for investor relations and corporate strategy, "Imperial was run by Bill Lynch—one of the most dynamic entrepreneurs South Africa has ever seen. Bill took the business from a small motor dealership in downtown Johannesburg and power-housed it into one of SA's premier industrial companies. He focused on growth—both of new ventures and also dominance within each market sector. Eventually, though, the balance sheet could no longer sustain the ambitions of the organisation."

When Lynch died in 2007 and was succeeded by Hubert Brody, a process was already underway to divest some of the more asset-heavy parts of the company. By then, Imperial had its own bank and was also involved with aircraft leasing. Luckily for Imperial, both these capital-intensive businesses were sold before the financial crisis shook the world.

"Today," says Akoojee, "the requirement for maximising returns on capital weigh heavier than before, when growth was the main driver for our business managers. We are looking for a better sustainable return on our capital rather than sheer market volume as we believe it is the best way of giving greater value to shareholders. At one stage, our gearing (debt/equity ratio) was in excess of 100 per cent; these days it is around 30 per cent. Cash flow is strong, though, and none of the divisions are anywhere near as asset-heavy as things were in our aviation days."

The underlying theme to virtually all Imperial's activities is transportation. Its more than 200 car dealerships represent virtually every vehicle brand sold in the SA market. It also has the exclusive distribution rights to Hyundai and Kia, two car brands that have grown their market share significantly over the last two years in South Africa.

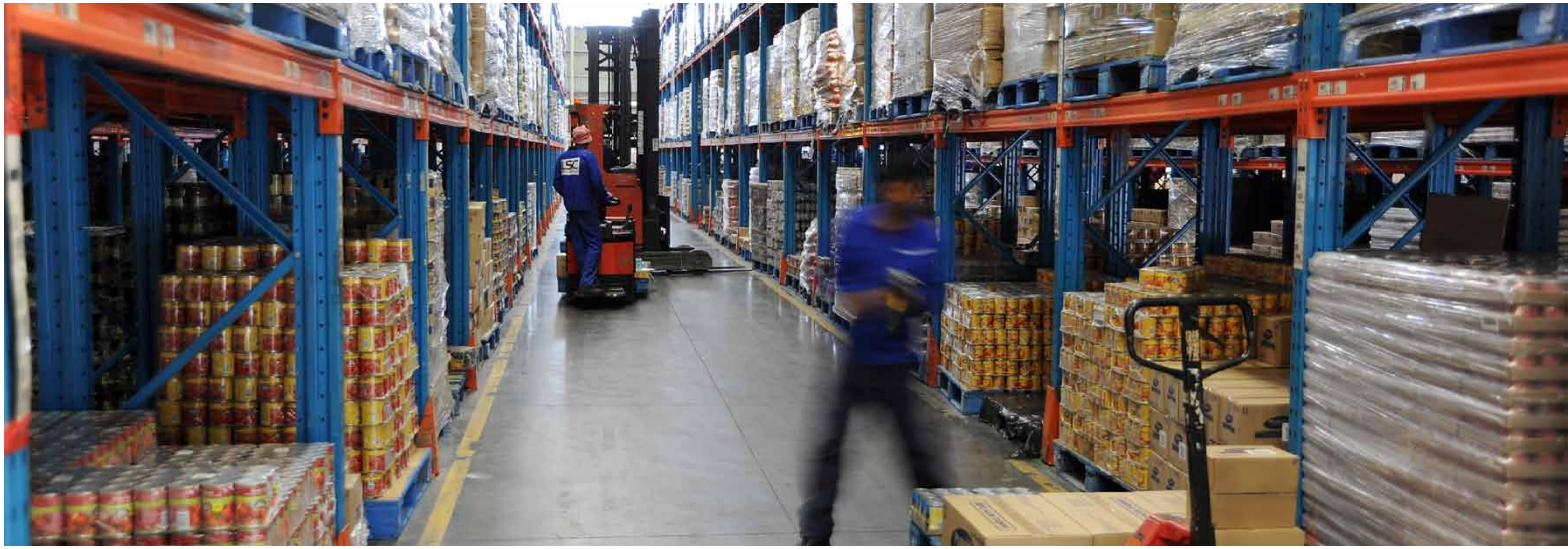
In its drive to maximise profit throughout the value chain, not only does Imperial sell cars and commercial vehicles, it can insure them through its own insurance company, provide service and maintenance plans and is also involved, through the 420-strong chain of Midas spares and accessories stores, in keeping older vehicles going.

Prospects for all Imperial's divisions are exciting, especially Imperial's logistics businesses, which account for one third of all sales. "Our expansion into logistics is typical of Imperial's entrepreneurial style," says Akoojee, "and came about as a natural extension of truck sales and then rental of trucks and vans." It's now a multi-brand business in its own right and split into five divisions: transport and warehousing; consumer products; specialised freight; integration services; and Africa (more of which later).

Despite being very much an African-centred business, Imperial does generate eight per cent of profit from its International Logistics business in Germany. This figure is expected to rise significantly next year after investing €270 million in the purchase of Lehnkering—a specialist logistics company serving many of Germany's industries.

"Imperial has a significant logistics business in Germany," says Akoojee, "where its activities include inland waterway shipping and operating terminals along the Rhine. Prior to Lehnkering, we were weighted towards the steel and automobiles industry. Lehnkering's involvement with chemicals not only gives us a better spread but it's a business that tends to be resilient in difficult times. Due to the extent of its value-added services and specialisation in hazardous goods, it can take advantage of attractive growth opportunities in niche markets."

The real potential, though, will come from unlocking the rapid growth that is taking place throughout the African continent. Compared with its neighbours, the South African growth rate of three per cent per annum looks more like a mature market than an emerging one. Many in South Africa believe that the occasional debate



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40,000

Number of Imperial Holdings employees

> "WE ARE LOOKING FOR A BETTER SUSTAINABLE RETURN ON OUR CAPITAL RATHER THAN SHEER MARKET VOLUME"

The underlying theme to nearly all Imperial's activities is transportation

neska intermodal terminal

Imperial's 200-plus car dealerships represent almost every vehicle brand in the SA market

> "CIC WAS A VALUABLE ADDITION TO OUR EXISTING LOGISTICS ACTIVITIES IN AFRICA"

about nationalisation discourages inward investment. "Even the mining industry," says Akoojee, "hasn't enjoyed the full benefit of Asia's boom. Our rail infrastructure simply doesn't have the capacity needed to shift the volume of ore and coal that could be sold. Consumer demand is there with 30-year low interest rates and a population growing ever more affluent but there is much to be done on the supply side."

So while growth in South Africa remains organically steady, Imperial has taken a long hard look at the rest of Africa. Here, Akoojee's past experience as an equity analyst and investment banker is being put to work. "There is no one single magic deal that will open Africa for us," he says. "Nor can we expect to grow a business from grass roots. Rather, it will be a case of many strategically selected acquisitions that can be threaded together, linking the various countries in an ever expanding network."

As well as two or three acquisitions over recent years of specialist transportation companies, the acquisition of CIC Holdings in November 2010 has given Imperial an extended base and a stronghold in FMCG distribution—the first area where increased wealth is spent. CIC acts as principal for blue chip brands such as Procter & Gamble, Tiger Brands and Cadbury in various African countries—a warehouse-based business already very familiar to Imperial. "CIC was a valuable addition to our existing logistics activities in Africa," says Akoojee, "as it provides a ready-made network on which the rest of our expansion plans can be based."

Expansion will be cautious and won't come cheap. There are a number of small and mid-sized companies already operating in Africa that could be potential targets; but acquisition prices will be high due to the good growth prospects of these companies. Then there are the ever-present political and cultural complications that make investment in Africa always something that needs to be carefully considered.

With his corporate strategy hat on, Akoojee is taking a cagey approach to African expansion; but that isn't slowing down his mission to reinforce to investors and the financial community that the Imperial Group is far more than the motor dealership business it once was. BE

For more information about Imperial Group visit: www.imperial.co.za