

Adcock Ingram BEE deal elicits mixed reactions

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BLACK economic empowerment (BEE) commentators yesterday expressed mixed feelings about Adcock Ingram's R1.3 billion BEE deal in which the listed pharmaceutical firm is selling 13 percent of its stock to three empowerment groups.

Kagiso Health Consortium, Kurisani Youth Development Trust and Adcock's permanent black employees are to contribute R93.7 million upfront and receive a 5 percent discount for the stake.

Kagiso Health Consortium will hold 7.15 percent of Adcock's shares, while Kurisani will own 2.6 percent and the employees 3.25 percent.

The deal will be funded through cash contributions from the partners and vendor financing, which will have a

9.5 percent fixed notional vendor financing rate.

The term of the transaction will be 10 years. For the first seven years the BEE partners will be locked in and will not be allowed to trade their Adcock shares. Thereafter, for an additional three-year period, the partners will be entitled to sell their shares only to BEE parties that have at least the same or better black ownership status as defined in the codes.

Ajay Lalu, a partner at Bravura Consulting, is not impressed with the way the deal has been structured.

"I think the 5 percent discount is too low to warrant the kind of restrictions placed on the strategic partners' ability to trade the shares. To say they can only sell after seven years and limiting the pool of people they can sell to should warrant

a higher discount," he said.

Lalu said it would be interesting to understand the impact of the R1.3bn deal on ordinary workers at Adcock.

Duma Gqubula, a BEE analyst said: "Seven years is better than Standard Bank's 20 years. I think people must be free to sell and companies must look for new partners."

But Jonathan Louw, the chief executive at Adcock, said BEE deals had to be broad-based and sustainable and Adcock's structure would achieve both these objectives.

"Lock-ins are a reality. Companies put a lot of work into the deals and they require commitment from the strategic partners. We are quite proud of our deal and the dividend reinvestment means there will be multiple entry points," said Louw.

The transaction will be

implemented through the issue of 26 million newly-created unlisted ordinary shares. BEE partners will receive dividends of which they will retain 15 percent while the rest will be used to purchase Adcock ordinary shares at the prevailing market price.

Brigitte Brun, the chief operating officer at Aqrata KZN, said she liked the BEE deal. "In current market circumstances this is a sweet deal. A lot of risk is carried by the vendor, Adcock. Almost no risk is carried by the employees, that's true empowerment," said Brun.

Kagiso Trust Investments owns 85.7 percent of Kagiso Health Consortium. The black-owned firm Mookodi Technologies owns the other 14.3 percent.

Afzal Patel, the chief executive of Kagiso Trust, said there were a lot of synergies between



Ajay Lalu, a partner at Bravura Consulting, says the 5 percent discount on the Adcock BEE deal is too low.

PHOTO: LEON NICHOLAS

his company and Adcock and it was a good long-term investment for Kagiso Trust.

Kurisani is the investment arm of NGO Lovelife, which drives a national HIV/Aids

prevention campaign.

Adcock closed 4.1 percent higher at R52.49 yesterday.

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