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DealMakers®
Deal of the Year

Friday, February 23 2018

Vodacom rings changes with Safaricom deal

Acquisition provides mobile operator with access to an additional 29.5-million customers, writes Marylou Greig

(L-R) Arie Maree (Ansarada), Marina Bidoli (Brunswick), Sainesh Vallabh (Vodacom), Nadya Bhettay (Vodacom), Colin Coleman (Goldman Sachs), Neal Froneman (Sibanye-Stillwater), Willem Baars (Goldman Sachs) and Till Streichert (Vodacom).

In this strategic cross-border deal Vodacom acquired from Vodafone a 34.94% indirect interest in Safaricom, a market leader in Kenya with a 71% mobile customer market share, by acquiring 87.5% of the issue share capital of Vodafone Kenya.

The acquisition is the largest to date done by Vodacom in a share-swap deal valued at R34.6bn. The transaction constituted a related-party transaction for Vodafone and Vodacom.

Vodacom is majority owned by British-based Vodafone. It has grown its operations to include networks in Tanzania, the Democratic Republic of Congo, Mozambique, and Lesotho and provides business services to customers in more than 40 African countries such as Nigeria, Zambia, Angola, Kenya, Ghana, Ivory Coast and Cameroon. Vodafone sold down its stake in Safaricom as part of its drive to streamline its African businesses.

In recent years Vodacom, like other mobile network providers, has taken steps to expand more into financial services to improve revenue, as voice and SMS revenue continue to decline. The acquisition is a strong M-Pesa play, giving Vodacom an edge on Safaricom's successful financial offering in East Africa and creating further incremental value through close co-operation, particularly in driving M-Pesa adoption across its operations.

For Safaricom, the deal allows it to expand into countries such as Nigeria and Angola, previously restricted by parent Vodafone's agreement with the South African government to expand in Africa only under the Vodacom brand.

In Kenya, M-Pesa is an important driver of economic growth, providing essential financial services to more than 19-million customers. Vodacom closed its M-Pesa offering in SA market but overall positive and value accretive in the long term.

The deal found favour with shareholders – providing access to a high growth, high margin and high cash generating business in the attractive Kenyan market with mobile penetration at only at number of shares to ensure that Vodacom met the 20% minimum free float requirement on the JSE. In September Vodafone sold 90-million (5.2%) Vodacom shares on the open market at an average of R165 per share (at a 7% discount) for R14.9bn.

MERGERS & ACQUISITIONS
RANKING THE SOUTH AFRICAN TOMBSTONE PARTIES: 2017

Rankings by Deal Value | **Rankings by Deal Flow (Activity)**

Investment Advisers

No	Company	Deal values Rm	Market share
1	Rand Merchant Bank	75 725	15.25%
2	Deutsche Bank	63 856	12.86%
3	Deloitte	59 072	11.90%
4	Rothschild	51 306	10.33%

No	Company	No of Deals	Market share	Deal values Rm
1	Investec Bank	24	11.27%	26 011
2	PSG Capital	20	9.39%	5 317
3	Rand Merchant Bank	16	7.51%	75 725
	Java Capital	16	7.51%	20 055

Sponsors

No	Company	Deal values Rm	Market share
1	Java Capital	141 314	19.93%
2	Deutsche Securities	109 074	15.38%
3	Merrill Lynch	98 903	13.95%
4	Barclays Africa	98 387	13.87%

No	Company	No of Deals	Market share	Deal values Rm
1	Java Capital	64	16.08%	141 314
2	Investec Bank	59	14.82%	46 427
3	PSG Capital	44	11.06%	13 782
4	Rand Merchant Bank	29	7.29%	78 324

Legal Advisers

No	Company	Deal values Rm	Market share
1	Webber Wentzel	216 296	32.22%
2	Cliffe Dekker Hofmeyr	119 576	17.81%
3	ENSafrica	107 848	16.07%
4	Werksmans	88 707	13.21%

No	Company	No of Deals	Market share	Deal values Rm
1	Cliffe Dekker Hofmeyr	82	25.15%	119 576
2	Webber Wentzel	69	21.17%	216 296
3	ENSafrica	44	13.50%	107 848
4	Bowmans	29	8.90%	26 107

Reporting Accountants

No	Company	Deal values Rm	Market share
1	PwC	104 510	75.04%
2	Deloitte	12 137	8.72%
3	KPMG	8 827	6.34%
4	Grant Thornton	7 391	5.31%

No	Company	No of Deals	Market share	Deal values Rm
1	PwC	17	32.08%	104 510
2	Grant Thornton	9	16.98%	7 391
3	KPMG	7	13.21%	8 827
4	Deloitte	6	11.32%	12 137

Graphic: RUBY-GAY MARTIN Source: DEALMAKERS

in 2016 because of slow growth due to high banking penetration, the regulatory environment and challenges in distribution.

Safaricom has a solid business model and it is believed it could deliver better growth than Vodacom over the medium term. The deal makes Vodacom the dominant player in the region and provides it with access to an additional 29.5-million customers, offering the company better diversification and the opportunity to lift earning from outside SA to more than 30%. Its interest in Safaricom is expected to contribute 15% to group earnings.

While the transaction would undoubtedly have been more attractive if Vodacom had entered Safaricom a few years back, when the Kenyan telecoms market was undergoing price transformation and valuation may have been lower than the current deal levels, the high-quality asset nonetheless fits perfectly with Vodacom's current Africa portfolio.

Valuation-wise, the deal, at the time, appeared full and only at a marginal discount to the 88%. In early June 2017, Vodacom secured the green light from 15.63% shareholder the Public Investment Corporation (PIC) to acquire the indirect interest in Safaricom. Shareholders approved the transaction in July.

> IN RECENT YEARS **VODACOM HAS TAKEN STEPS TO EXPAND MORE INTO FINANCIAL SERVICES TO IMPROVE REVENUE**

The acquisition was funded by the issuing of 233.5-million new ordinary shares, raising Vodafone's stake in Vodacom from 65% to 69.6%. At the time of the announcement, it was expected that Vodacom's free float would decline to 18%.

As part of the Safaricom transaction, Vodafone committed to Vodacom that it would sell down a sufficient

Vodafone retains a 12.5% interest in Vodafone Kenya, equivalent to 5% in Safaricom. The Kenyan government owns a 35% stake in Safaricom and the remaining 25% is held by the public.

The key attractions of this deal are the earnings diversity that Safaricom brings to Vodacom shareholders and participation in the success of M-Pesa in Kenya. Vodacom has doubled its earnings base outside of SA and is becoming a more important role player on the continent rather than just the number one player in SA.

The deal gives Vodacom a single entry into sub-Saharan Africa. Vodafone is likely to sell its majority holding in Vodafone Ghana to Vodacom in the future while retaining ownership of the North African assets.

Advisers to the deal were Goldman Sachs, UBS, Deloitte, Nedbank CIB, ENSafrica, Webber Wentzel, Cliffe Dekker Hofmeyr and PwC.

It beat nominees Barclays' divestment in Barclays Africa, the restructure of Distell's multi-tiered ownership structure and the acquisition of Aldermore by FirstRand.

GENERAL CORPORATE FINANCE
RANKING THE SOUTH AFRICAN TOMBSTONE PARTIES: 2017

Rankings by Transaction Value | **Rankings by Transaction Flow (Activity)**

Investment Advisers

No	Company	Transaction values Rm	Market share
1	PSG Capital	171 279	14.11%
2	Java Capital	132 702	10.93%
3	Rand Merchant Bank	107 173	8.83%
4	Morgan Stanley	100 884	8.31%

No	Company	No of Transactions	Market share	Transaction values Rm
1	Java Capital	32	14.55%	132 702
2	PSG Capital	26	11.82%	171 279
3	Investec Bank	22	10.00%	37 896
4	Rand Merchant Bank	18	8.18%	107 173

Sponsors

No	Company	Transaction values Rm	Market share
1	PSG Capital	176 246	25.35%
2	Java Capital	137 656	19.80%
3	Rand Merchant Bank	68 223	9.81%
4	JPMorgan	59 276	8.53%

No	Company	No of Transactions	Market share	Transaction values Rm
1	Java Capital	52	15.66%	137 656
2	PSG Capital	44	13.25%	176 246
3	Investec Bank	25	7.53%	21 537
4	Questco	24	7.23%	8 018

Legal Advisers

No	Company	Transaction values Rm	Market share
1	Cliffe Dekker Hofmeyr	279 460	34.76%
2	ENSafrica	151 462	18.84%
3	Webber Wentzel	103 562	12.88%
4	Girard Hayward	90 644	11.27%

No	Company	No of Transactions	Market share	Transaction values Rm
1	Cliffe Dekker Hofmeyr	26	18.71%	279 460
2	Webber Wentzel	25	17.99%	103 562
3	ENSafrica	21	15.11%	151 462
4	Bowmans	16	11.51%	41 234

Reporting Accountants

No	Company	Transaction values Rm	Market share
1	PwC	137 613	49.49%
2	Deloitte	104 442	37.56%
3	Grant Thornton	28 449	10.23%
4	EY	3 183	1.14%

No	Company	No of Transactions	Market share	Transaction values Rm
1	PwC	20	35.71%	137 613
2	Deloitte	16	28.57%	104 442
3	Grant Thornton	7	12.50%	28 449
4	EY	3	5.36%	3 183

Graphic: RUBY-GAY MARTIN Source: DEALMAKERS