Linde buying out Afrox minorities

Perspectives: October 27th, 2020

Afrox is a meaningful investment in our investor portfolios. Afrox was founded in 1927, and listed in 1963 on the JSE where it is one of the oldest listed businesses. Amid many spectacular achievements and innovations over the course of its 93 year history, it created the renowned **AfroxPac** self-rescue pack used by underground miners in life-threatening circumstances, as well as building and spinning off the successful hospital group **Life Healthcare**.

Businesses, such as Afrox, that survive, let alone thrive, across multiple generations are *exceedingly* rare finds – anywhere in the world. In order to do so, they must possess something special. In the case of the industrial gas industry, the fact that the world cannot fully function on a daily basis without its products is that something special.

We were therefore not surprised to see **Linde**, the German controlling owners of Afrox, using the legal means at their disposal to basically force minority shareholders to sell all of their shares in Afrox. We think Linde is a terrific business, with smart executives. They know a great investment opportunity when they see one – that is their job, and we expect it of them. They have clearly done their legal and due process homework.

We want to invest in businesses that are owned and led by smart, sensible business people we respect and admire. They are the sort of people that will look to buy low and sell high.

We do not mind when they do so on a willing buyer, willing seller basis. However, we mind a great deal when they force it on us and our firm's investors. Occasionally being on the receiving end of the actions of smart, sensible business-people is a sort of extremely painful unintended consequence of our investment approach.

The good news is there is a lot that we can and have so far done about this.

1. We are confident in our research conclusion that Afrox is worth meaningfully more than the R24 currently being offered by Linde.
2. Our evaluation of the disclosed public information and the due legal processes Linde chose suggests this is all but a done deal.
3. We spoke to a number of the professional market participants who own significant stakes in Afrox.
4. We prepared our summary thoughts & questions, and approached Afrox to try to speak in private with the MD, Mr. Schalk Venter. His office confirmed he is unable to engage with us.
5. Next, we wrote a *non-public* formal letter with our summary thoughts, and delivered it to the Independent Board of Afrox. As of this writing we await their potential reply.

These types of situations are fascinating, and technically, procedurally and legally complex. We have done everything we can to understand it, and we will do everything we can to try to unlock as much value as possible for our investors. We do and back our own work, and when warranted we will take a firm stance for what is fair and just.

Our work continues…

Daniel Malan
Managing Director & Chief Investment Officer
daniel@perspectiveim.co.za

Perspective Investment Management
www.perspectiveim.co.za

Perspective
Investment Management