Are We Having Takeout *Again*?

Perspectives: July 28th, 2025

We were not surprised when yet another good quality JSE mid-sized market capitalization business held in our funds, **Adcock Ingram**, became the target of a minority takeout offer last week. Interestingly, it is *not* its corporate control owner, Bidvest, making an offer to minority shareholders. The offer is being made by an Indian listed company called Natco Pharma.

The rationale provided in the announcement contains the standard boilerplate that the offer is being made at *a premium to the recent average share price*, that an *independent expert provided a fair and reasonable opinion*, and that a *committee of independent board members will recommend voting for the offer and delisting*. In addition, they clearly state "*As a **private** company, Natco and Bidvest will **seek new revenue streams and opportunities** for the Company to expand its footprint in one of the largest and growing markets on the African continent*" [emphasis added]

I am open-minded and stand to be corrected, but to me those arguments hold little to no water. We have owned Adcock Ingram for over 5 years already. We *know* that it is a fabulous business, with a highly credible and ambitious control shareholder of reference, a terrific and proven executive leadership team, and excellent governance standards. I see no good reasons why a <u>listed</u> Adcock Ingram would somehow and suddenly now be unable to seek out new revenue streams and opportunities and in which we can no longer remain long-term participants in on behalf of our fund investors.

This piece is not only about Adcock Ingram. **There is a far bigger picture here worthy of our mindful consideration**. I feel that I can clearly see and understand why so many JSE listed businesses have delisted already, or are in the process of doing so or trying to do so. Shrinking stock markets are indeed a worldwide reality, but it has been particularly acute in South Africa. This happened for three reasons:

One, combined regulatory initiatives in and certain irresponsible behaviours by the public *and* private sector have resulted in overly burdensome direct and indirect costs to being listed; Two, sustained capital outflows from the JSE by local and foreign market participants since 2010 have resulted in many deeply undervalued share price opportunities on the JSE; Three, enough retail and institutional minority shareholders have apparently been willing to accept subpar offers to take them out and delist in the nearsighted self-interest of making a quick buck. It is a foolish long-term strategy to kill and eat all the geese laying gold eggs.

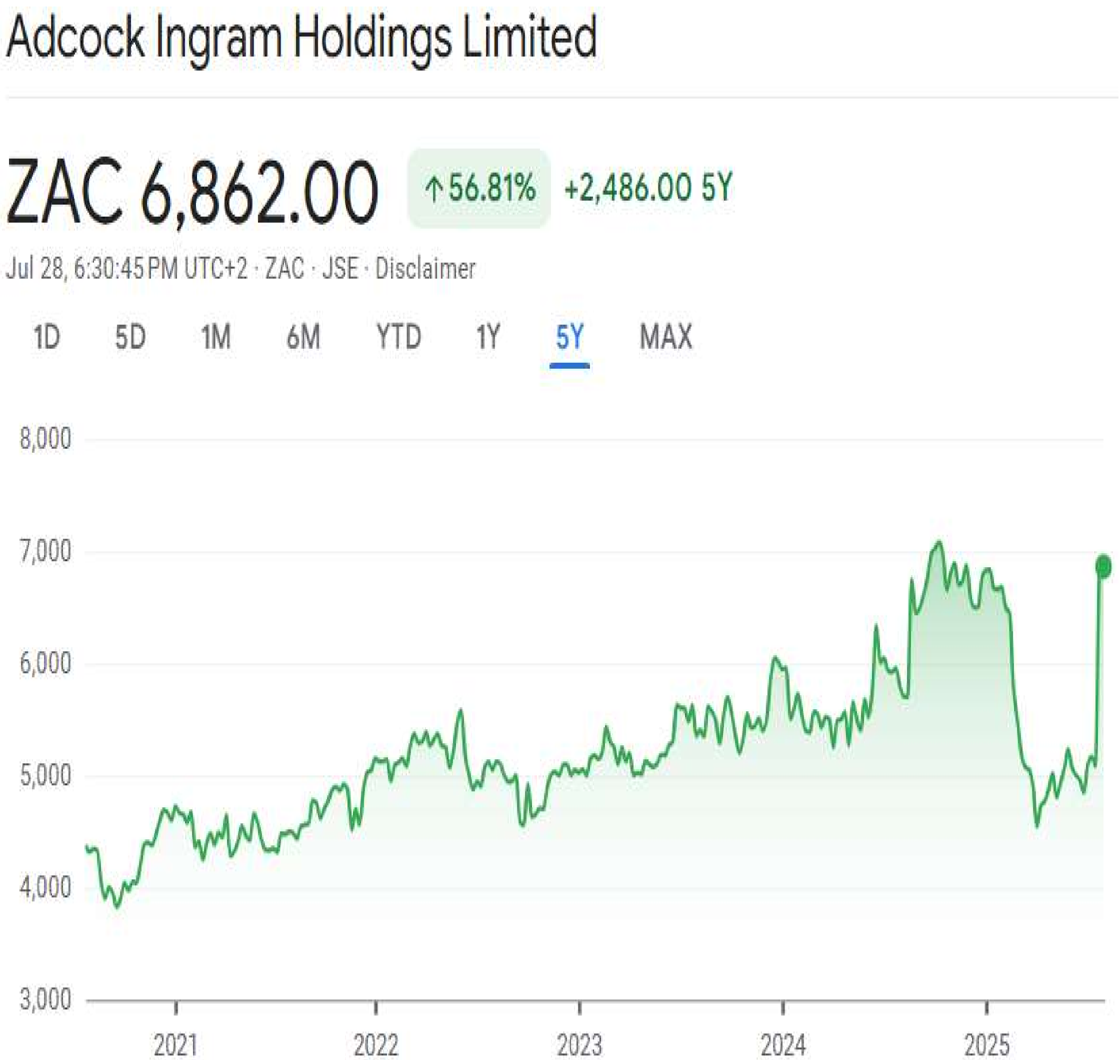
I should inject the word 'currently' into these three, because each of them changed in the past and therefore they might change again in the future. In fact, I believe they *will* eventually change, and for the better, because they are fundamentally self-correcting mechanisms.

The evidence is that an established good quality long-term growth business can be considered 'fair value' at about 15 times *normalised* after-tax annual profits. Now, from the perspective of an investor, it is important to bring into account that at fair value a business is priced to deliver the so-called 'equity risk premium' to its future long-term minority shareholders. It is equally important to realize that **this equity risk premium is still an extremely attractive future expected rate of return** - far superior to that of mediocre to poor quality listed companies and all other asset class alternatives [commodities, cash, government and corporate bonds, and real estate].

Remaining listed also provides us as patient, valuation-disciplined investors with implementable and repeatable long-term buying and selling opportunities that can significantly enhance the expected equity risk premium return.

Should we ever accept an offer made at below or even up to fair value for *any* of our good quality listed South African businesses? **That makes no sense** . Why would we, as Perspective but by extension the collective South African investment community, sacrifice the embedded future return potential available in a good quality listed business such as Adcock Ingram, only for that future return to then be earned by a foreign company offering no tangible benefits to the South African economy or its citizens? That makes no sense either.

We have no issues with any good quality business who wants to delist or the entities and people pursuing such an outcome, and will vote to support it – provided the price being offered is sufficient to offset all the negatives. If the price is not sufficient, it boils down to the rules and regulations, including minority rights, that govern these special situations, as well as how minority shareholders collectively will choose to exercise their rights to vote.



Source: Google Finance

Our work continues...

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