'You keep to your Beatles, I'll sip my brandy'

By Michael Bleby

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Halewood has plans. It wants to enliven KWV with its ready-to-drink products, such as Red Square vodka. It wants to take the venerable, but struggling, wine and brandy maker's expertise to countries such as China and Romania. It wants to take KWV's product range to places it has never been. In 2014 it wants to take it public.

"What is our vision? To take one of the strongest South African brands worldwide and grow the business through the KWV brand," Halewood International MD Mike Veysie says. "It must succeed as a standalone business with a unique identity and vision and ultimately list on the stock exchange, whereby shareholders can unlock value."

The way he describes it, to turn KWV into a mini-Distell or even a small clone of global operator Diageo sounds plausible. The fast-moving alcopop business, which runs close to a just-in-time business, would generate cash and not tie up money in stock as a slow-moving wine and spirit business.

Case closed

The problem, however, is KWV. It has shut its cellar door to the would-be UK suitor, even after the collapse of Pioneer's controversial R12-a-share bid.

"The board is satisfied that there is no prospect whatsoever of any merger taking place between KWV and Halewood on the basis of the current suggestions by Halewood," the Paarl-based company said in no uncertain terms on Thursday, 10 February 2010.

KWV is certainly not making it easy for Halewood. Even though Halewood proposed a merger last month, the owner of Laborie and KWV Brandy refused to hand over the same corporate information that it gave Pioneer during its takeover bid. The Securities Regulation Panel on Thursday ruled that KWV had to do so. On Friday, the company was considering appealing against the decision.

"What's annoying us is that... where we have a lot of support from shareholders, the company is not prepared to engage," Veysie said on Friday, a day after KWV's statement. "We could get to some form of solution which would be mutually beneficial. And that's all we're looking for."

KWV also sounds annoyed. Halewood's offer was not a formal one and approaching the regulator to force KWV's hand was unnecessarily aggressive, according to investment company HCI, which last week bought most of outgoing investor Zeder's 33.9% share.

"They've come along and said: 'With our brilliance and your assets we could be a good partnership.' Their stuff is worth R1,2bn and ours is R800m, so we'll have a share swap and they'll take control of the company," says HCI CEO and new KWV board member Johnny Copelyn. "On the strength of that proposal they went to the Securities Regulation Panel and said they want access to all the data room stuff prepared for the Pioneer offer. I say that's horse s***. What they've done is very rude."

Support

That, however, is not the regulator's view, which backed Halewood's request for information.

"At all the relevant times, being whilst the Pioneer potential offer was alive, during which the information was requested... it appears that Halewood was a bona fide potential offeror," the panel ruled.

Shareholders, at least, are keeping an open mind.

"We're very keen to hear what Halewood has to offer. We're not saying we are going to support them. We want details to take an informed decision," says Khutso Mampeule, the chairman of KWV's empowerment shareholder, Withmore, which has an 18% stake.

Few question that something needs to happen to KWV. The company's over-the-counter-traded shares closed at R12 last week, below the R18,69 net asset value they had as of June last year. A frequently repeated comment is that KWV needs a management that can cut costs and make the company more efficient. Halewood says it can.

"Our gross profits are very similar, but our operating expenses are almost half of those of KWV," Veysie says.

Cutting costs

KWV CEO Thys Loubser says he can cut costs and has already done so, having reduced staff numbers from 560 when he joined in 2007 to 362 today. He favours building a ready-to-drink business and approached Halewood two years ago about buying their South African operation. Ironically, that approach went nowhere because Halewood was not prepared to share its figures with KWV . "We never got numbers, in spite of dozens of e-mails," he says.

Veysie, who says Halewood's offer still holds, wants to come in, change things and list the merged business by 2014. "We could double the value of the two businesses within a 36-month period."

To do that, he will have his work cut out, though.

"If they're serious about this they should just go back to Liverpool, get out their Beatles records, carry on with their business for a while and maybe in a couple of months' time we can talk seriously again," Loubser says.

Source: Business Day