Pearls cast..

How four homegrown companies, shunned by

BELINDA ANDERSON

THERE ARE A HANDFUL of home-grown South African technology companies that left the JSE some years back because the market just didn't rate them highly. Yet they continue to perform splendidly in their new homes offshore. One listed on the Nasdaq, two were bought out by private equity players in the United States and the fourth became a juicy morsel for a London-listed group.

Although it's not always helpful to wonder what could have been, it does seem a pity that these homegrown companies no longer belong to SA's heritage. Sure, some of them still pay taxes here but they're no longer fundamentally South African companies.

Net1 is probably the only example of a good compromise among the four. The SA Reserve Bank gave it permission to list on Nasdaq but to also devise a structure to take SA investors along. They couldn't buy more shares but could retain their shares in a trust. And some still do.

However, when another IT company – FrontRange – wanted to follow suit, the Bank disallowed it and so it went in search of other alternatives and ultimately got bought out by a private equity player.

> UCS's business model is not well understood. Could it also be bought out and delisted?

Idion had long earned almost all of its income offshore and so, frustrated by not getting a rating from the local market and seeking a less complicated platform from which it could grow, it also sniffed out a US private equity buyer.

Softline could also have remained domiciled in SA had it not been for this country's rigid rules. Its application for a London listing in 1999 got the thumbs down from the Bank and it ultimately became the prey of a multinational accounting software company.

NET 1

Banking the unbanked, SA style

FORMERLY KNOWN AS Aplitec, Net1 UEPS delisted from the JSE four years ago after obtaining permission from the SA Reserve Bank to take SA shareholders along with it on to the Nasdaq. Although many of those have since taken profits, a number of shareholders – among them Polaris Capital's Nedgroup Investments Rainmaker Fund – maintain their stakes in the trust that holds the shares, called the New Aplitec Participation Trust. Brait, which helped recapitalise the company, remains involved, with CEO Anthony Ball still on its board.

Run by the passionately manic Frenchman turned South African, Serge Belamant, Net1 still maintains its offices in President Place in Rosebank, Johannesburg and continues to derive around 80% of its revenue from SA, where it pays pensions in five provinces. Those account for roughly 65% of this country's State pension grants.

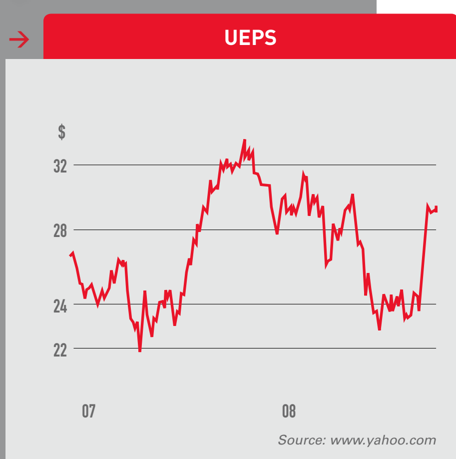
But, the mix is changing. Belamant estimates it will probably take five years before only 20% of revenue comes from SA and the rest offshore. Net1 recently implemented a national switch in Ghana, which sees the entire banking system virtually running off the back of its systems. It also recently won a big tender in Iraq, which initially involves disbursing government grants but will later extend into a broader range of transaction facilities. And because Net1 will be paid on a fee per transaction basis, the potential for annuity-generating income is huge, says senior vice-president for marketing and sales Brenda Stewart.

She says the successful implementation in Ghana has also piqued the interest of other central banks in Africa. Net1 also recently won a tender from Botswana's government to distribute food parcels. Other countries where it has implemented systems include Namibia, Nigeria, Rwanda, Burundi, Malawi, Mozambique and Colombia.

Although there are many opportunities for Net1 in Africa and the Middle East, it could also explore India – if it found the right partners.

Belamant says it currently only uses a small portion of the technologies it could in SA but that other opportunities are gradually opening up for it to use its whole spectrum. Its technologies, says Belamant, are far more than merely a payment mechanism: they're a completely new delivery platform that can interoperate with existing platforms and offer a range of services, from the payment of pensions and other state grants, to more traditional transactional banking services, national identification systems and payment and refund of taxes, etc.

Stewart says it tendered against 42 other companies for



y SA, are succeeding overseas

All four examples are companies that built their own technologies or software solutions and all spend a chunk of revenue each year on research & development (R&D). Some made losses while listed but turned profitable once their platforms had been developed and had gained market acceptance.

In two of the cases – Softline CEO Ivan Epstein and Net1 CEO Serge Belamant – the founders did receive recognition for their achievements. Epstein won the 1999 SA chapter of the Ernst & Young Entrepreneur of the Year Award and Belamant was a finalist in 2003. But, sadly, their companies have been lost to SA in some way.

Existing JSE-listed IT companies may have a sprinkling of their own-developed technologies but rely mostly on providing services and solutions off the back of the hardware and software of other manufacturers and developers.

Sadly, the only remaining JSE-listed IT company that earns almost all its income from its own-generated products is UCS. And its business model doesn't seem to be well understood by the market. I'll bet it will also be bought out and delisted at some stage. ¤

Serge Belamant

Brenda Stewart

the Ghana contract but Belamant says nobody else "came close" to what Net1 could deliver in terms of a national, total solution that could be implemented quickly.

Clients in SA pay more to draw money from the infrastructure of competing banks but with Ghana's e-zwich, the fee structure is such that any client of any bank can draw money from another and pay almost the same fee. That, says Stewart, will make them compete on products and services. "Banks must go back to banking."

Clients are issued with Net1 smart cards that enable them to load money (such as the payment of salaries and pensions), draw cash, make money transfers and pay for transactions from any of Ghana's banks or savings and loans companies. Transactions can be conducted online or offline, and the system also uses fingerprint authentication (any finger, in case one or more digits is missing).

Belamant says its model challenges traditional banking models but it opens up the very real possibility of providing meaningful and affordable banking services to the unbanked. Importantly, its systems help to eliminate fraudulent transactions, ghost workers and double payments because it uses fingerprint recognition.

Belamant says the company, which opened 20 years ago, has long been ahead of its time but the wave is just starting to break in terms of gaining the credibility it needed. In 2006, Net1 bought out another JSE-listed technology company that had its own intellectual property – Prism – paying more than competing bidder, Altech, was prepared to. Belamant says Prism has been integrated into Net1 and has so far delivered what it had hoped.

Last year Net1 reported revenue of US$224m (around R1,7bn), a 14% increase on the previous year. Five years ago that figure was just $74,9m (R575m at today's exchange rate). Earnings per share of $1,11 (around 852c) put the share on a historic earnings multiple of around 26 times (at a share price of $28,97). Most JSE-listed technology companies trade on multiples of less than half that.

Net1's more recent results, for the nine months to the end of third quarter 2008 in March, show revenues of $191,8m and EPS of $1,14, suggesting strong earnings growth for the full year and a forward multiple of closer to 20. Net1 has a market cap of $1,53bn (almost R12bn).

Belamant says while being listed on the JSE had "not helped us at all", being a relatively significant company on the Nasdaq gave it credibility and the potential to become a world player. However, it wasn't its Nasdaq listing alone that contributed to its reputation. That was coupled with the fact that it could implement the systems it had promised. ¤

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