

'The deal's off'

Three AltX ICT companies call off transactions. Is it a trend?

IN SEPARATE ACTIONS within a week of each other, three AltX-listed companies in the information and communication technology (ICT) sector cancelled potential deals. They were telco Vox Telecom, call centre business Dialogue Group and managed telecoms company TeleMasters.

While not unique to the sector, you must wonder whether it could be a growing trend, particularly with the share prices of many companies having fallen significantly despite no fundamental change in their businesses. Although each company says the circumstances were unique, you wonder if the same level of caution would have been exercised during a bull market.

Vox Telecom released a cautionary

announcement on 15 May and pronounced its deal was off on 11 June. Chairman Tony van Marken said it would evaluate any potential buy on the prospect of forward earnings and analyse the certainty of attaining those.

Although Vox liked the company, it wasn't comfortable with its financial prospects. Van Marken said Vox could only ascertain that sort of detail at the due diligence stage – hence the deal had been called off.

Van Marken said that, philosophically, you could argue that companies could take more risk in a bull market but had to be more circumspect in a bear market. However, Vox hadn't looked at the potential transaction in that way but merely by way of its future contribution to earnings. He said it would have been a pretty

significant deal.

However, the cancelled cautionary hadn't related to M-Web, Naspers's Internet service provider (ISP) business, which it's currently trying to sell by way of an auction.

Van Marken said Vox would still look at M-Web, along with many other potential suitors. The process was still in its early stages. Vox remained acquisitive should the right opportunities come along.

Dialogue announced on 6 June it had called off the potential purchase of the other 50% of public sector focused company Sibize International that it didn't already own, plus certain outsourcing contracts. It had been negotiating the deal since 11 January and would have paid an initial R47,5m and a further amount once

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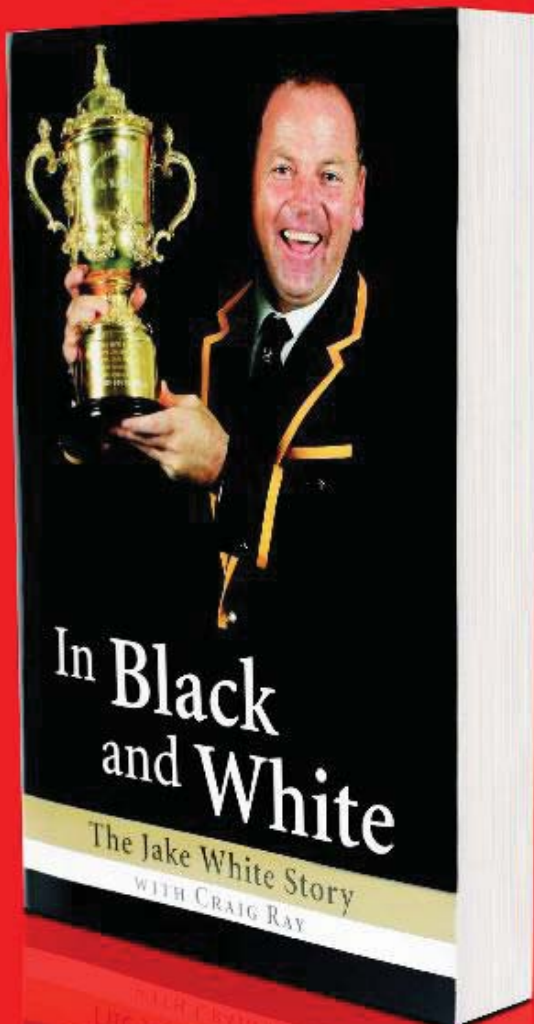
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39 the value of the outsourcing contracts had been determined. Both tranches would have been paid by a mixture of shares and cash; the shares being issued at much higher prices than its current price of 65c each.

Dialogue CEO Jason Drew said the deal was ditched due to accounting issues. While it had managed to agree on terms to buy the remaining 50%, it had been unable to agree on the value of two Government contracts. IFRS would have required that it amortise the entire value of the company, which presented too much of a risk. However, Drew said should Sibize win more business it could again consider the deal.

Meanwhile, Drew said both companies would continue to work together on opportunities in the Government outsourcing space. "Nothing changes," he said of the relationship between the two. "We're happy with 50% but we would've liked 100%."

Despite being an interesting business with lots of seeming potential, Dialogue's price has been a virtually one-way bet down since December, when it was at 160c/share. Drew ascribes that to the current economic climate and negative sentiment towards small cap shares. "It's the same business. We're very bullish about what we're doing."

TeleMasters, a least cost routing player (LCR involves helping companies to route telephone calls over the least expensive path), also announced on 11 June it had cancelled a deal. It was to have bought Marketel, a value added network services licensee and a player in the interactive wireless application service provider sector, for R29,6m. It was quite excited about the opportunity to diversify its business by buying Marketel.

It had negotiated the transaction since 10 January, although CEO Mario Pretorius said both parties had first begun talking late last year. Pretorius said though the parties had signed an agreement on 10 March, that was still subject to the completion of due diligence investigations and board approval.

But even before the due diligence started, Marketel had asked for extensive changes. Pretorius said TeleMasters had accommodated that request but the deal still failed to win board approval. "You must dance with a lot of girls before you take one home. And, unfortunately, we're not taking this one home," said Pretorius.

TeleMasters continued to look for potential buys to help diversify its business, said Pretorius. "I'm the king of blind dates. But you must be very careful about who you take home."

BELINDA ANDERSON
belindaa@finweek.co.za