

Case Study: Liberty Star Consumer Holdings (South Africa)

Libstar's Story

Libstar was founded in 2005 by Metier, a Johannesburg-based Southern Africa fund manager, and Andries van Rensburg, former CEO of a major South African flour and bread distributor. The company was conceived as a platform to acquire controlling stakes in existing businesses with high growth potential in the fast-moving consumer goods (FMCG) manufacturing and distribution sector. Robin Smith, previously at Metier, joined Andries in the building of Libstar, which today holds controlling stakes in more than 20 businesses supplying South Africa's private label, contract manufacturing, and branded product markets with a gamut of food, beverage, and personal care products.

Beyond the decision to create Libstar was the potential that Metier had seen in the country's prepared foods landscape as South Africans' changing spending habits created an opportunity to nurture the businesses that would capture the market's growth. A growing middle class was fueling an increase in consumer spending, while increasing urbanization was driving more out-of-home eating as well as greater interest in health and wellness brands. The changing makeup of South Africa's food supply chain also boded well for Libstar's growth potential. Brand owners with a core competency in branding



and marketing were increasingly outsourcing their manufacturing activities to contracted producers, while South Africa's private-label market for its part showed potential for rapid future growth as consumers increasingly looked to value alternatives to national brands.

However, the companies with the trade skills and expertise to fill these market gaps were mostly small entrepreneurs and family-owned businesses with inadequate access to growth or working capital. Individually, these businesses were not well positioned to negotiate advantageous terms with suppliers or customers, and often lacked access to strategic planning resources to achieve the optimal scale for their operations. Through collaboration with its management team and enhanced access to capital, Metier saw an opportunity for these companies to overcome their limitations and scale up to become key suppliers to all major retailers, large brand houses and food services businesses operating in Southern Africa.

The Role Played by Private Equity

Starting with its first acquisition in 2006, Libstar acquired controlling stakes in more than 20 South African businesses and helped them to achieve increased efficiency, better financing terms through a Libstar credit rating, and stronger client relationships. Partnering with Libstar not only contributes the capital necessary for continued growth, but also adds value through a range of operational and strategic initiatives such as product development and strategic business

planning. In one case, Libstar revitalized a failing cheese producer by overhauling its management and engineering a category shift away from hard cheeses (a volatile commodity) to soft cheeses (which are less market-sensitive and earn higher margins). This strategic shift in addition to improved working capital management, led the company from the edge of insolvency when it was acquired in 2008 to a business that now generates over ZAR700 million in revenue. ▶

The Company



Essentials

Company: Liberty Star Consumer Holdings
(www.libstar.co.za)

Country: South Africa

Sector: Fast Moving Consumer Goods

Business focus: Holding company with controlling interests in manufacturers and distributors of food and beverage, household, and personal care products

Size: Revenue of ZAR3.5 billion (FY 2011); approximately 3500 employees (as of August 2012)

GP: Metier, a Southern Africa-based private equity fund manager (www.metier.co.za)

Date of investment: December 2006

Investment: ZAR676 million

Impact Highlights

Since 2006, Libstar has provided more than 20 manufacturing subsidiaries with expansion capital, more favorable borrowing terms, and professional business planning

By negotiating volume rates on business services and raw material inputs and pooling working capital resources, Libstar businesses cut costs and reduced seasonal resource constraints

Due to their association with Libstar, subsidiaries gained access to national and international retailing customers through new private label and contract manufacturing relationships

Libstar has improved portfolio companies' compliance with Black Economic Empowerment (BEE) criteria, increased employment, and spent more than ZAR9.5 million in training and community outreach in 2011

The Company View

“Libstar is more than the sum of its parts—the group structure and management team have created an entity capable of delivering disproportionate value. The strength of the group has been in the areas of product category strategy; channel and customer strategy; development of support services; supply chain optimization and integration; and people development.”

Andries van Rensburg,
CEO, Libstar



“There were a lot of small players in the market—a lot of good family-owned businesses that were struggling to keep up with demand, needing access to capital, unsure how to deal with their BEE credentials. We saw opportunities for Libstar to drive value in the industry.”

Lungile Mdluli, Director, Metier

▶ Libstar’s subsidiaries have also benefited from the platform investment model itself as many have achieved cost savings and adopted managerial best practices as a result of coordination among portfolio companies at group level. Cost synergies have taken several forms, as companies joined together under Libstar’s flag to negotiate with suppliers for lower prices on raw materials or trim infrastructure, IT and insurance costs through standardization and volume discounts. Uniform management standards, including best practices in remuneration, have sharpened incentives for managers throughout Libstar’s portfolio. To lower costs, many business functions are centralized at Libstar’s front office, allowing subsidiaries to benefit from common resources such as accounting, tax preparation and legal counsel.

Beyond its initial capital injection, Libstar also gave each subsidiary access to pooled working capital facilities, providing cash to businesses

according to the seasonality of their funding needs. Portfolio companies also have access to acquisition financing, allowing them to create additional value through consolidation within their own sector. Today, Libstar is a large and growing part of South Africa’s food, beverage, household and personal care industry. Woolworths now obtains a large portion of its groceries from Libstar businesses, and McDonald’s sources all its beef and chicken from one Libstar subsidiary. In 2012, the company projects revenues of ZAR4.5 billion and EBITDA of more than ZAR450 million. As testament to the value created through Libstar, the company has attracted attention and even unsolicited acquisition offers. Through a partial exit concluded with two value-adding institutions in 2011, Metier reduced its participation from 90% to 58% and realized a return of in excess of 2.8 times money.

Beyond the Bottom Line

Libstar brings to its partnerships a commitment to the principles of Black Economic Empowerment (BEE), South Africa’s transformation program for disadvantaged minorities. As the manager of a BEE-compliant fund itself, Metier has made increasing the BEE scores of Libstar subsidiaries a priority. As a group, Libstar’s rating has improved from Level 6 in 2006 to Level 4 in 2011, and Metier is targeting a Level 3 rating in 2012.

Libstar’s involvement has also boosted employment at its portfolio companies, which has more than tripled from about 1,500 people in 2006 to approximately 3,500 in August 2012. As a result, Libstar subsidiaries have become some of the largest single employers in certain areas of the country, such as the dairy-producing region of George.



Metier has also established a dedicated social and ethics committee at Libstar that is mandated with fulfilling the firm’s ESG commitments. As part of this imperative, from 2009, Libstar has spent over ZAR16.5 million on education, training and community upliftment.



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