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## **ACORN AGRI & FOOD CLINCHES HEAVYWEIGHT TITLE FIGHT**

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### **NOTHING WORTH HAVING COMES EASY**

There is a great saying, attributed to Theodore Roosevelt, which reads *nothing worth having comes easy*. While many of us can relate to this statement in our personal lives, it also rings true in the world of business. In South Africa, one trending investment story irrefutably demonstrates the validity of this statement when it comes to mergers and acquisitions.

### **A DAVID AMONG GOLIATHS**

Our story begins in 2020 when Ascendis Health Ltd announced a need for recapitalization due to unsustainable debt levels. It was decided that the conglomerate would dispose of non-core assets and put the proceeds towards repayment of its debt. Among these non-core assets was the yet-to-be-discovered underdog formerly known as the Ascendis Animal Health business.

The Animal Health business consists of three niche focus areas providing a large range of animal health and veterinary products through three divisions. **Animal Health (aka Agrimed)** operates in the commercial agricultural animal segment offering antibiotic, feed additive, production enhancers and other solutions for use in cattle, sheep, goats, poultry, pigs and wildlife. **Vet** operates in the companion animal segment with a range of companion animal medicine and healthcare products aimed at helping pets live long and healthy lives. **Laboratories** is a specialized company and leading manufacturer and marketer of branded pet care products with a small selection of human care products.

The Animal Health business addresses the needs of an industry that operates in tandem with the agriculture and food value chain, and which is vital for its effective functioning as well as the overall animal health of our country. Within this highly regulated but dynamic industry, large multinational corporations tend to hold the majority of market share in countries the world over. The **Acorn Private Equity** team was thrilled to have the opportunity to pursue Animal Health, a David among Goliaths. It remains the largest locally owned player in South Africa in the animal health market, beating numerous international giants for the top spot in various products and categories.

This coveted market position that encompasses a cross-border market presence with entrenched distribution channels across Southern Africa, as well as its asset-light, highly cash generative nature made this David a heavyweight champion in disguise. We made sure to fight to the finish against the other bidders.

### **THE ROCKY ROAD TO ACQUISITION**

**Acorn Agri & Food ("AAF")** is a leading South African, vertically integrated agriculture and food group with a hundred-year legacy. **Acorn Private Equity** acts as AAF's fund manager and together with AAF the team possesses a unique combination of investment and operational expertise in the agriculture and food value chain. We operate from a heart of partnership culture – their objective being to create value by being the operating and investment **partner of choice**.

In the early stages of an extensive due diligence, the team took note of the stellar and vigorous management team that lay at the heart of Animal Health's operations. If given the right mix of entrepreneurial freedom, operational expertise support and financial backing, we saw this team using its untapped manufacturing ability and long-term synergies to turn the business into a hard-hitting, favoured player.

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The road to acquisition was by no means a smooth one. As with the age-old account of David and Goliath, the odds stacked against **Acorn Private Equity** on more than one occasion. Navigating a transaction that was complicated by changes to the lender group of the seller, a release of security, approval of relevant competition authorities, a part-cash and part-debt financed purchase as well as high levels of public scrutiny tested those involved. However, the team rallied in the face of adversity and lived to tell the tale of a victory hard-won. Carl Neethling, chief investment officer of **Acorn Agri & Food** commented:

*“The transaction is a testament to our investment philosophy of supporting management teams where we invest. Without the support of the Animal Health management team and without my team member, Johan van Zyl’s grit and determination, this deal would never have been possible. We lost this deal twice but relationships and dedication prevailed. Ultimately, a great success against all odds.”*

After extensive engagement and negotiation with the Animal Health seller, we negotiated a transaction for 100% of the share capital in Animal Health for a cash consideration of c.R767 million, the largest acquisition to date for **Acorn Agri & Food**. This purchase consideration was funded primarily by cash within **Acorn Agri & Food** as well as through debt finance procured.

In the spirit of partnership, **Acorn Agri & Food** facilitated the co-investment of Animal Health’s management in the business. This arrangement put 14% of the shares in the hands of Animal Health’s management by way of both a financed position and a subscription for shares by senior management. **Acorn Agri & Food** is excited about management’s alignment and willingness to commit to the business over the longer term.

## THE SPOILS OF VICTORY

After the successful conclusion of the acquisition on 30 November 2021, **Acorn Agri & Food** began a rebranding of the business. The rebranding is leveraging the existing 30 years of brand equity built into the Kyron name and has made the former consolidated Animal Health business now known as **Kyron Group**. **Kyron Group**, with its significant research and development and manufacturing capabilities, now operates through three main divisions, namely **Kyron Laboratories**, **Kyron Animal Health (aka Kyron Agri)**, and **Kyron Vet Rx**.



We have already begun to see the spoils of victory. **Kyron Group** has exceeded expectations and the forecasts set during the acquisition process. On an EBITDA level, the business’s actual performance in 2021 came in at a whopping 29% above its forecast. Similarly, the revised 2022 forecast is 12% above the initial 2022 forecast. We have applied a healthy dose of realism to **Kyron Group’s** future performance; however, the team is energized and the growth prospects for this business look very attractive.

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To top this story off, **Acorn Private Equity** was awarded the coveted *2021 Catalyst Private Equity Deal of the Year* award for this transaction at the annual DealMakers Gala event in early 2022. The course for winning this award begins with an intensive filtering and shortlisting process and ends with the winner being announced at the gala. Deals under consideration are assessed by an independent panel based on a variety of criteria such as transformational facets, execution complexity, size of transaction and potential value creation. This win comes just two years after **Acorn Private Equity** won the same award for **Acorn Agri & Food's** disposal of Bearnibbles SA in 2019. **Acorn Private Equity** is truly humbled to have received this ultimate nod of peer approval – twice!

### **CELEBRATE THE JOURNEY - HOWEVER ROCKY IT MAY HAVE BEEN**

With all things in life, it is important to remember what can be achieved with pure grit and determination. And once a victory has been earned, it is equally important to pause, reflect and celebrate the journey – however rocky it may have been. We are humbled by this journey and thankful to all parties involved. May our story encourage others to persevere in their pursuit of things worth having, even when the road is no longer easy.

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