

MPO national congress

***Taking the sting out of
B-BBEE!***

20 September 2017

NetValue[™]
EQUITY PARTNERS

► Your speaker

- **Anton de Wet CA(SA) RA**

- B-BBEE specialist since 2012

- **NetValue™ Equity Partners**

- Independent Broad-Based Ownership Scheme
 - (>40 transactions concluded this year)

- **Relationship with MPO**

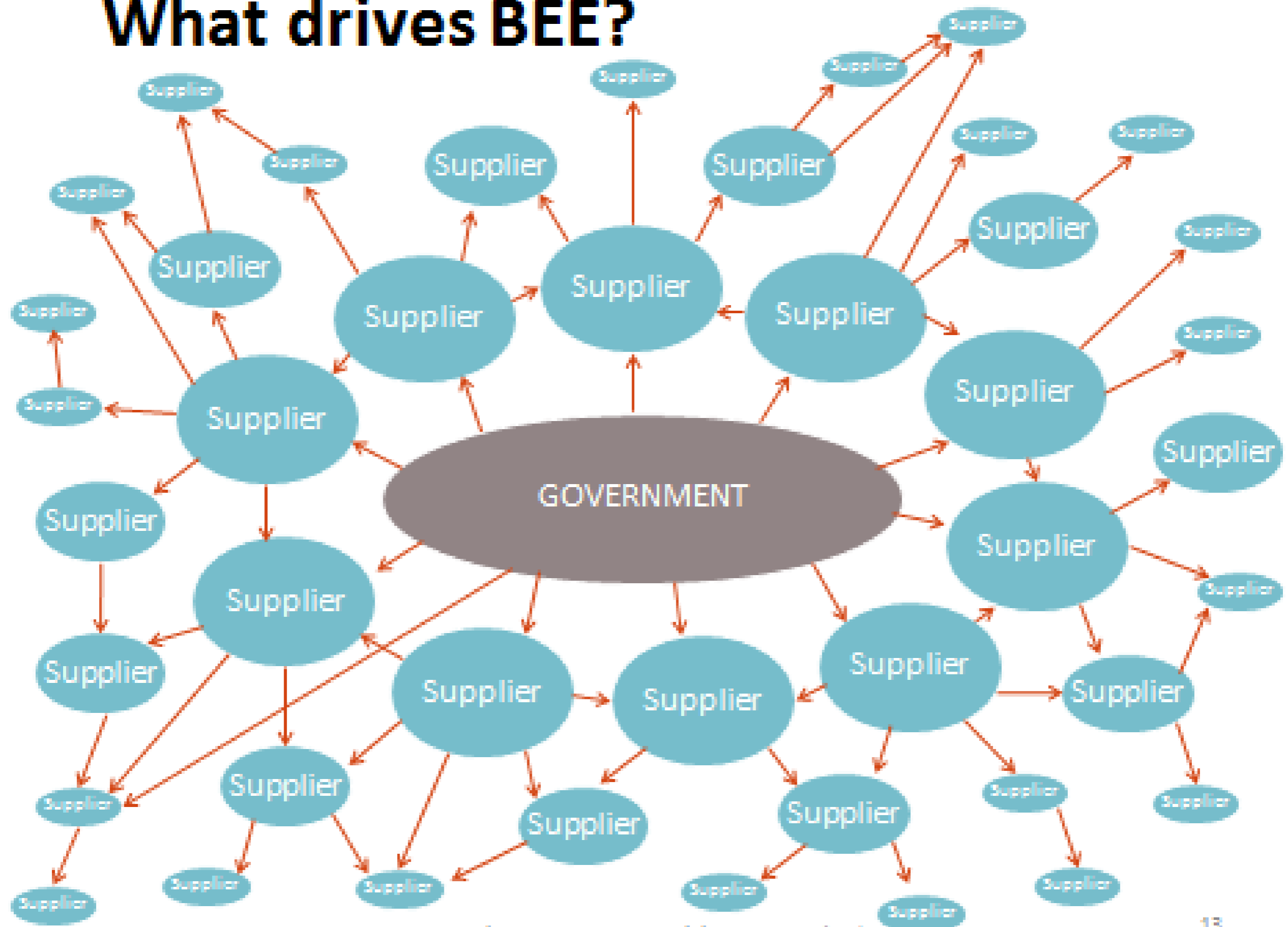
- Engaged to find a workable and sustainable solution specifically for MPO members



▶ **Will you need a
B-BBEE status?**

▶ **When?**

What drives BEE?



The Sting!

B-BBEE has become
primarily about Black
Equity Ownership!

Two routes to compliancy

- ▶ When the Amended AgriBEE Codes are issued, the two routes will be:
 - The Scorecard Route, or
 - The Ownership Route

The Two Routes



Black Ownership:	0% - 50.99%	51% - 99.99%	100%
EME (<R10m)	Level 4	Level 2	Level 1
QSE (R10m - R50m)	Scorecard	Level 2	Level 1
Large (>R50m)	Scorecard	Scorecard	Scorecard

The Scorecard Route

WEIGHTING POINTS PER ELEMENT (incl bonus points)		
Elements	Large Enterprise (>R50m)	QSE (R10m - R50m)
Equity Ownership*	25	25
Management Control	19	15
Skills Development*	25	30
Preferential Procurement*	27	21
Supplier Development*	10	5
Enterprise Development*	7	7
Socio-Economic Development	5	5
Total	118	108

* **Priority Element** with a 40% sub-minimum requirement. If the sub-minimums are not achieved the overall B-BBEE level is discounted by a maximum of one level.

CONTRIBUTION LEVELS

Qualification Points	B-BBEE Levels	Procurement Recognition Levels
≥100	Level 1	135%
≥95 but <100	Level 2	125%
≥90 but <95	Level 3	110%
≥80 but <90	Level 4	100%
≥75 but <80	Level 5	80%
≥70 but <75	Level 6	60%
≥55 but <70	Level 7	50%
≥40 but <55	Level 8	10%
< 40 points	Non-Compliant	0%

Example of the cost of the Scorecard Route

Scenario:

Annual Turnover	R12,000,000.00
Annual Payroll	R 3,000,000.00
Net Profit after Tax	R 500,000.00

Estimated cost *every year*:

Legal fees & dividends	R 50,000.00
Black director fees	R120,000.00
Training (3% of payroll)	R 90,000.00
Preferential Procurement	?
Enterprise Development (1% NPAT)	R 5,000.00
Supplier Development (1%)	R 5,000.00
Socio-economic Development (1%)	R 5,000.00
TOTAL COST <i>every year</i>	R275,000.00

Facts about the Scorecard Route

- Unreasonably expensive!
 - Administratively very burdensome
 - Not sustainable in the longer term
 - Lack of expert assistance in rural areas
-
- ▶ We expect a very limited uptake of the Scorecard Route by QSE's.
 - ▶ Large Enterprises have no option
 - ▶ but to adopt the scorecard.

Facts about the Ownership Route

- Once-off implementation (with expert assistance)
- Much more affordable in the long term
- Results in an automatic Level 2 status
- Exempt from all scorecard requirements
- Requires a commitment to empowerment
- Requires a “mind-shift change”



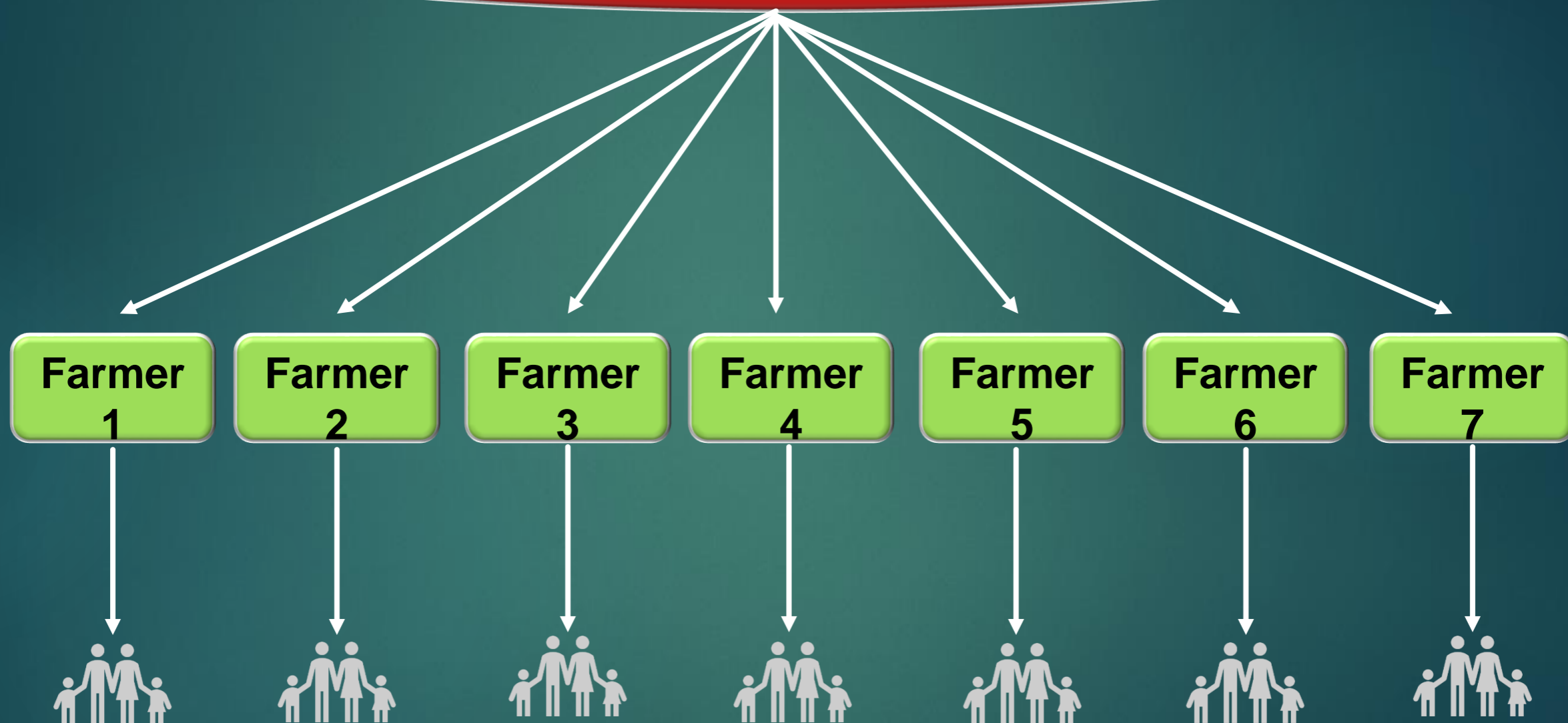
**How do we plan to make the
STING less painful?**

The MPO and NetValue™ Equity Partners plan to launch an **umbrella B-BBEE ownership structure** for MPO members with the following characteristics:

- No upfront legal structuring charges.
- Benefits black dairy workers and their families.
- Equity held in an umbrella B-BBEE trust by trustees consisting of dairy farmers, workers and MPO executives.
- No cash funding required.
- Existing equity ring-fenced for the farmer.
- Day-to-day operational control retained.
- No complicated accounting required.
- No expensive valuations required.
- A tax neutral equity transaction.

Example Structure:

Dairy Development Trust





To register your interest, please contact:

Philip Swart

MPO Head of Member Services

philip@mpo.co.za