

Extra fizz in Pepsi deal

PepsiCo agrees to invest R6.5bn over five years as part of Pioneer acquisition

By HILARY JOFFE

● Trade & industry minister Ebrahim Patel has leveraged PepsiCo's R26bn acquisition of Pioneer Foods to boost President Cyril Ramaphosa's investment drive, with the US snack and beverage giant committing to invest up to R6.5bn over five years as one of the public interest conditions attached to the deal.

The Competition Tribunal on Friday approved the PepsiCo-Pioneer deal with a series of conditions.

This came after PepsiCo reached agreement with Patel and trade unions on setting up an innovative R1.6bn worker empowerment share trust and a R600m development fund. It also committed to avoiding retrenchments and to lifting investment spending to twice the amount Pioneer would have spent on its own to expand its operations.

Eugene Willemsen, PepsiCo's president and CEO for Africa, Middle East & South Asia, says most of the R5.5bn in capital expenditure to which the US group had committed – over and above the purchase price – will focus on growth across the entire Pioneer business, and it could invest a further R1bn if the South African economy starts to turn around.

He says the Pioneer acquisition is a great opportunity for PepsiCo to build a strong business across Sub-Saharan Africa and to play a leading role in economic transformation and development in Africa.

PepsiCo, which has been in SA since 1999, has three Simba plants in SA employing 3,000 people, as well as some operations in the rest of Africa. But Willemsen declines to be drawn on whether it plans to merge Simba with Pioneer, which employs about 10,000 people and owns brands such as Sasko, Weetbix and Liqui Fruit.

"We will be looking at how to unlock the value of the combined business," Willemsen says.

This is the second largest acquisition that PepsiCo, which also owns the Fritos and Lay's brands, has made outside the US in the past decade and is one of the larger foreign direct investment transactions into SA in recent years.

Patel has made a habit over the past decade of intervening in the regulatory processes run by the competition authorities to get foreign companies that are on the acquisition trail to agree to public interest conditions in areas such as promoting small businesses, farmers and local procurement, and to maintain jobs and local head offices.

But new competition legislation enacted last year gives him greater powers and ex-

pands the public interest conditions to include black empowerment ownership and inclusive growth.

Patel said on Friday the PepsiCo deal was in line with "an important trend developing in this administration" in terms of getting commitments to new fixed investment.

"Mergers and acquisitions on their own don't increase growth and output but these are opportunities for us to see how we can blend the interests of shareholders in acquiring new assets and the interests of society in ensuring more jobs and expanding the economy, as well as bringing in players that would otherwise be marginalised, such as farmers," he said.



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Ebrahim Patel
Minister of trade & industry

Patel also highlighted the empowerment transaction, saying that giving workers a stake in the enterprise would enable wealth and build partnerships, and avoid adversarial attitudes at workplace level.

The empowerment transaction involves PepsiCo providing an unencumbered R1.6bn to a worker trust that will buy shares in the Nasdaq-listed company, with half of the dividends paid out to workers and the other half retained to fund the trust to buy a stake of up to 13% in Pioneer in five years' time.

Based on history, dividends worth about R50m should flow to the trust annually.

The R600m development fund includes R300m for agricultural development,

R200m for education and R100m for incubation and start-ups, but Willemsen is also working with the government and other stakeholders to leverage the development fund to kick-start the establishment of a "Food Valley" – like the Silicon Valley ecosystem but for food and agricultural products – similar to one that his home country, the Netherlands, successfully launched 15 years ago.

He wants to see it help to develop farmers in the supply chain for the wheat, oats, potatoes, fruit, vegetable oils and other commodities Pioneer uses, much as PepsiCo has done in India where its operations have supported 50,000 small farmers.