Valuing companies under business rescue to attract foreign investors

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ABSTRACT

With increasing challenges facing the South African economic environment, the need to assist locally distressed companies appears to be more than ever an area of concern in order for these organisations to survive and the economy to thrive. The formal process known as Business Rescue, introduced in 2011, seeks to assist distressed companies by attempting to turn them back into going concerns.

Existing literature however suggests, the success rate of this formal protocol to date has been low and one of the key reasons why seems to be the limited availability of local distressed funding. The aim of this research was therefore to establish what the current landscape of the local distressed market is and if an opportunity exists to alternatively seek external source of funds on an international level by attracting foreign investors to buyout these companies under Business Rescue based on their value.

The research approach used was qualitative and exploratory in nature, where thirteen highly experienced experts were interviewed that provided a wealth of insight in the specific focussed area.

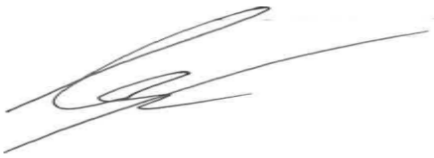
The outcome however suggested that due to the many current uncertainties being experienced in the economic environment, the opportunity to attract foreign investors appears to be limited.

KEYWORDS

Business rescue, foreign investors, valuations, buyouts, financial distress

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.



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1.1 Introduction and description of the problem

The increasing volatility of economic market conditions continually places strain on South African companies and has forced a majority of these organisations into a situation of being unable to meet financial obligations; which has resulted in being classified as distressed (Maswanganyi, 2016; Naidoo, 2016; Writer, 2014). If these distressed companies are unable to successfully obtain financial support or aid, either internally or externally, they will ultimately face the possibility of being liquidated (Writer, 2014). Should this extremity indeed occur, it will not only have a negative effect on the immediate stakeholders of these companies, but also a detrimental impact on the South African economy as a whole (Mkhondo & Pretorius, 2017; Pretorius & Rosslyn-Smith, 2015; Jijana, Nishika & Karodia, 2015; Bradstreet, 2013).

Based on this growing concern, the Companies Act 71 of 2008 was established providing in it Chapter 6 which is referred to as 'Business Rescue', which came into force on the 1st of May 2011 (Levenstein, Krige, Nott, Barnett & Chen, R, 2014; Bradstreet, 2013). This Act provides the distressed company with temporary relief to either try and turn the company around into a going-concern or at least create an opportunity to generate better returns for creditors than would otherwise have been the case under immediate liquidation (Pretorius & Rosslyn-Smith 2015; Levenstein et al., 2014; Pretorius & Rosslyn-Smith, 2014; Bradstreet, 2013; Wilson & Du Preez, 2013; Bradstreet, 2011).

Since the establishment of this new Act in 2011, the distressed industry has seen significant year-on-year increases in the use of Business Rescue in contrast to immediate liquidation (Bannister & Kidd, 2015; CIPC, 2017). Levenstein (2016), states that distressed companies and, more importantly, their creditors are increasingly becoming more aware of the potential benefits of Business Rescue and are more willing to use it as the preferred distressed method.

Naidoo (2016), however states that although Business Rescue is increasingly becoming the more sought after distressed method, as opposed to filing for immediate liquidation, the success rate to date has remained alarmingly low at only 9.4% according to a recent report submitted in 2016 to the CIPC by Professor Marius Pretorius. Naidoo (2016), further stated that according to Pretorius some reasons contributing to the low success rate is either the distressed company is waiting too long before filing for Business Rescue, the duration of the process is too long for distressed lenders to endure and extend additional funds, the Act is abused by business owners, speculative entrepreneurs or Business Rescue practitioners in order to delay payments to creditors and eventually put it into an already pre-planned liquidation, or the Business Rescue practitioner attempting the rescue lacks the necessary skills and expertise to effectively handle the rescue proceedings (Burke-Le Roux & Pretorius, 2017).

Whatever the various reasons, the fundamental objective remaining for any of these distressed companies is still to secure sufficient distressed funding to enter and survive the full duration of the Business Rescue period (Jijana et al., 2015; Ensor, 2014). This was further confirmed by a recent restructuring survey report done in 2017 on South Africa, stating that one of the topical issues still to date in the restructuring industry is the inability of the distressed company to successfully gain access to sufficient distressed funds (Deloitte, 2017).

Earlier studies done by Pretorius & Du Preez (2013), also showed the reason why most distressed companies failed was due to their limited access to distressed funding to survive the full Business Rescue period (Du Preez, 2014). This statement was again further confirmed by Ensor (2014), who stated that both Levenstein (2016), and Pretorius concurred that without the accessibility to funds, the likelihood of success for these companies are little to none and will most probably contribute to its eventual collapse (Jijana et al., 2015; Ensor, 2014). Based on this, it shows that over the years the main key fundamental issue still remaining is the limited access and availability to local distressed funds.

The restructuring survey report (Deloitte, 2017), states that the existing incumbent banks already involved in the distressed process are currently still seen as the main source of distressed funding. Although this is the case, both the survey report (Deloitte, 2017), and Ensor (2014), however asserts that existing banks still require additional security from these distressed companies to extend funds, in order to have assurance that their funds will in the end be recoverable. Unfortunately, in most of the cases, distressed companies who are already under the formal process of Business Rescue, the exiting banks already hold majority of the security and often little to no unencumbered assets remain to serve as security to lend funds against (Pretorius, 2016).

Following economic developments that took place between 2016 and 2017, in both the local and global economic arena, such as the downgrade to Junk status in South Africa, Brexit in the UK, as well as the new US administration, borrowing rates for these distressed companies are likely now to increase and the pool of local funders to shrink even further. Therefore, making it even more expensive for these distressed companies to pay back their loans which further adds to the already challenges being faced to gain to local distressed funding (Van Heerden, 2017; CFO, 2017; Deloitte, 2017).

According to the survey report (Deloitte, 2017), a number of distressed funders/lenders are seen to be emerging in the local market including new banks, trade creditors and new investors such as Private Equity investors and Venture Capitalists. The challenge however remains that these local players are currently very cautious when it comes to either extending funds or investing into distressed companies, especially considering the current volatile market conditions experienced in South Africa, as well as the fact that these companies are over indebted (Deloitte, 2017; Deloitte, 2016; Sanchez, 2014). This therefore further confirms that the availability of funding from local sources appears to be limited. (Deloitte, 2017; Deloitte, 2016; Sanchez, 2014).

Based on recent research by Mkhondo & Pretorius (2017), on pre-packaged application in business reorganisations, they stated that companies who remain in operations and can continue as a going concern *"provides better societal and economic value than breaking them up"* (Mkhondo & Pretorius, 2017, p.2). Supporting therefore the fact that if not being able to assist a distressed company and having to put it into liquidation, it will have a greatly negative impact on the productivity and growth of the South African economy.

1.2 Purpose of Research

After extensively reviewing the available literature on distressed companies in South Africa with a specific focus on Business Rescue, there appears to be a pressing need and an opportunity available to identify sources of funds or funders for financially distressed companies from alternative investors, such as foreign investors (Levenstein, 2016; Visser, 2015). Both Levenstein (2016), and Nickig (2014), concurred that an increased appetite and awareness is seen to be rising from foreign investors interested in the South African distressed market (Bannister & Kidd, 2015).

If this avenue of attracting foreign investors to buyout distressed companies is proven to be a valid avenue, the opportunity could not only lead to an increase in the success rate of Business Rescue, but on a macro level also save jobs and have a positive impact on the South African economy leading to an increase in productivity and economic growth (Mkhondo & Pretorius, 2017; Jijana et al., 2015).

The Business rationale for this research is to determine what impact the discounted buyout value of distressed companies under Business Rescue will have on foreign investors investment decision. Further also what other factors in these distressed companies in South

Africa, foreign investors perceive as a good value proposition that will motivate and attract them to want to buyout these distressed companies in the `Business Rescue market.

The purpose of this research is therefore to explore and confirm whether a lucrative business opportunity indeed exists to attract foreign investors to buyout South African distressed companies under the formal process of Business Rescue. This opportunity will not only lead to greater opportunities for the stakeholders involved of these companies that filed for Business Rescue, but could also lead to a higher success rate in the Business Rescue industry if these companies can be turned around again into a going-concern. Greater value could then be returned to both the creditors and shareholders involved. This increase in success rate will in turn also cultivate a greater sense of confidence amongst future creditors, distressed businesses and shareholders of companies in South Africa towards the future use of the framework of Business Rescue for companies who are financially distressed.

During the time of conducting this research and considering the relative newness of this field of study, limited data on this specific topic was available. The available literature on Business Rescue, distressed companies, valuations and the opportunity for attracting foreign investors to buyout distressed companies have however been carefully selected and extensively reviewed. This was done to identify what the current shortcomings are in both the locally financially distressed and Business Rescue industry, as well as the opportunities that are available leading to the motivation for conducting the research on this specific topic.

No clear evidence has been found at the time of the proposal to indicate that any such previous exploratory research was done on this specific topic in South Africa.

1.3 Research Scope

The aim of valuing distressed companies that filed for Business Rescue is to understand what foreign investors perceive as good value in these distressed companies in South Africa that will motivate and make them more willing to invest and buyout these companies.

The chapters to follow explore in more depth on the background and the literature reviewed on Business Rescue, the success rate of Business Rescue, financially distressed companies, the valuation process, discounted buyout value, the opportunities and threats involved foreign investors could face in South Africa when considering buyouts of distressed companies under Business Rescue, as well as the current economic market conditions both locally and globally and what impact it will have on foreign investors.

This will further be followed by the propositions the researcher aimed to confirm. Discussions will then conclude with a detailed look into the Research Methodology used and data collection tools that were used in order to collect and analyse the needed data from the industry experts.

The main aim and objectives of this research is therefore to investigate and address the following aspects:

- Whether local funding for distressed companies, especially those under Business Rescue to survive the full duration of Business Rescue period, is currently limited or available
- Whether foreign investors are increasingly becoming aware of valuable distressed assets to be acquired in South Africa
- If the discounted value at which distressed companies in South Africa can be bought at leads to the appeal and attractiveness for foreign investors to invest and buyout these companies
- If the buyout of companies under Business Rescue by foreign investors will yield a better return for creditors and increase the success rate of Business Rescue
- What the opportunities and threats involved are for companies under Business Rescue that will impact foreign investors view of the value and attractiveness of the buying out a distressed company in South Africa.
- Whether three recent global and local economic developments will bring about new buyout opportunities for foreign investors into the South African distressed market

1.4 Conclusion

Based on the literature reviewed, the researcher seeks to test the business need to see how the value of companies under Business Rescue is determined and understand whether or not this will indeed lead to a greater opportunity to attract foreign investors to buyout these distressed companies in South Africa. The aim of this research, based on the identified business need, is therefore to determine how the value of a company in Business Rescue is determined and how to attract foreign investors.

The researcher further seeks to address what the key value driving factors are of distressed companies in South Africa that would make them more or less attractive to foreign investors. The ultimate goal is to therefore value distressed companies under the formal process of Business Rescue in order to attract foreign investors to buyout these companies under Business Rescue in order to increase the success rate of Business Rescue.

This study further aims to add to the academic theory base as well as to the practice of the Business environment that will enrich the knowledge base for Business Rescue and turnaround practitioners, other industry experts, as well as scholars and any external players interested in understanding the nature and extent of the value of Companies under Business Rescue, as well as the prerequisites required for successfully attracting foreign investors to buyout these companies.

This research aims to be of benefit to Business Rescue practitioners, managers and business leaders by providing a practical model which is developed through the combination of current theory and new insights gained from the research and which can be applied within organisations.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction to valuing companies under Business Rescue

Chapter one provided an outline of the problem identified, as well as the purpose and main aims the researcher seek to achieve with this research study. The ultimate aim as stated was to understand how the value of companies under Business Rescue is determined and whether or not the discounted buyout value was indeed perceived as the main driving factor of value for foreign investors when considering to buyout distressed companies in South Africa.

The researcher further sought to understand who the foreign investor types would be that are interested to buyout distressed companies, which countries they are from, which industries they likely would target and what alternative factors would make a distressed company in South Africa more attractive to foreign investors to buyout these companies.

Chapter two reviews the theoretical base with regards to one of the main challenges the Business Rescue industry still faces regarding the limited availability of local distressed funding which further led to the business rationale and need of this study. In-depth explanations and analysis of the business rationale and academic motivation occurs in this chapter. This was further built upon the key concepts outlined in Chapter one.

Some of the key terms pertaining to the research that were discussed in this chapter include the following:

- Business Rescue
- Financially distressed
- Valuations
- Buyouts and discounted buyout value
- Foreign investment
- Foreign investors versus local investors
- Opportunities and threats to entry for foreign investors.

This chapter also went into more depth on the available literature that was reviewed that pertained to this specific topic, the opportunities of companies under Business Rescue, as well as how the identified business need linked to the identified academic gap. Finally concluding with an analysis of the discussions of the chapter.

2.2 Key Terms and concepts in Business Rescue

The key terms were defined below to provide a basis for understanding the guidelines upon which the key aspects of this topic were built on.

2.2.1 Business Rescue

According to the Companies Act 71 of 2008, Chapter 6, Section 128 (b) "Business Rescue" is defined as: (Republic of South Africa, 2008, p. 230) *"proceedings aimed to facilitate the rehabilitation of a Company that is financially distressed by providing for -*

I. *the <u>temporary supervision</u> of the company, and the management of its affairs, business and property by a business rescue practitioner;*
II. *"a <u>temporary moratorium</u> on the rights of claimants against the company or in respect of property in its possession;*
III. *"the <u>development and implementation, if approved, of a business rescue plan</u> to rescue the company by restructuring its business, property, debt, affairs, other liabilities and equity."*

Business Rescue was introduced in 2008 and came into effect on the 1st of May 2011 (Bradstreet, 2013; Pretorius, 2013). Business Rescue is a protocol that provides a financially distressed company with temporary relief to develop a plan and attempt to sort out the financial challenges it faces by the issuance of new debt and equity (Jijana et al., 2015; Bradstreet, 2010). This process is based on a Business Rescue plan provided by the Business Rescue Practitioner, approved by all stakeholders involved in the process, which includes employees, creditors and shareholders (Pretorius & Rosslyn-Smith, 2015; Pretorius & Rosslyn-Smith, 2014; Bradstreet, 2010).

The Business Rescue process is conducted under strict supervision of the appointed Business Rescue Practitioner (Pretorius & Rosslyn-Smith, 2015; Pretorius, 2013). The practitioner is responsible for coordinating and monitoring all of the company dealings during the Rescue period and therefore serves a very crucial role that ultimately could impact the future fate of the company (Du Preez, 2014; Pretorius, 2013). This is directed by the Business Rescue plan developed and implemented by the practitioner, including a moratorium that is put in place on the rights of claimants against the company (Pretorius & Rosslyn-Smith, 2015; Bradstreet, 2010).

The ultimate goal of Business Rescue is to assist in turning a company back into a going-concern, (Pretorius & Rosslyn-Smith, 2015), as it can be of greater value to both creditors and shareholders of the company, as opposed to filling for immediate liquidation (Bradstreet, 2013). Not only is this of greater value to the creditors and the shareholders of the company if the company can keep on operating as a going concern, but also to the overall society and economy of South Africa (Mkhondo & Pretorius, 2017). Business Rescue is therefore seen as both an alternative and a better solution than liquidation and a way to assist a company in distress to return back to a going concern (Burke-Le Roux & Pretorius, 2017).

In order however for any distressed company to be successful in a turnaround, either in an informal turnaround process or a formal process such as Business Rescue, it is imperative to secure distressed funding in order to pay their day-to-day operational costs (Pretorius & Du Preez, 2013). According to Jijana et al., (2015), as well as a South African restructuring survey report (Deloitte, 2017), funding for distressed companies is still being perceived as limited and one of the main challenges to overcome in the South African distressed industry.

Currently the main funders or assistance of funds in the distressed industry are seen to be mostly the existing banks, shareholders, trade creditors or suppliers, existing customers and to a lesser extend new types of distressed investors (Deloitte, 2017; Pretorius & Du Preez, 2013). The challenge however with assistance from shareholders, suppliers and existing customers, is that these are all viewed as only being short-term and temporary solutions and in most distressed cases not sufficient to sustain and ensure the overall long-term survival of the company. Based on this, larger sources of distressed funds are therefore required in order to assist these ailing companies.

According to research by Smith & Graves (2005), in order for a distressed company to be in a position to obtain distressed funds it further requires the availability of ‘free-assets’ to serves as security for distressed lenders. In the case however of most distressed companies under Business Rescue, the existing banks already hold majority of the security and little to none remains left to serve as additional security to extend funds (Deloitte, 2017; Pretorius & Du Preez, 2013)

Based on research done up to date on Business Rescue, the limitations presented in the literature mainly focussed on the availability of local distressed funding being little to none (Jijana et al., 2015). This research study therefore sought to determine if there was an opportunity to rather look at the option of attracting foreign investors to buyout these distressed companies.

2.2.2 Financial Distress

A company is defined as being "financially distressed" (with referral to any particular company at any particular time) - as defined in the Companies Act 71 of 2008, Chapter 6, Section 128 (f) is: (Republic of South Africa, 2008, p. 230)

(i) "it appears to be reasonably unlikely that the company will be able to pay all of its debts as they fall due and payable within the immediately ensuing six months; or
(ii) it appears to be reasonably likely that the company will become insolvent within the immediately ensuing six months."

Agrawal and Maheshwari (2016) further stated in their research that companies are termed as being financially distressed when they find themselves in a situation whereby they are unable to meet or pay future obligations as they become due.

Further definition was also provided by Maripuu & Mannasoo (2014), who termed a company to be in financial distress if it has breached its legal obligations of paying the minimum financial or capital requirements.

As stated in chapter one, literature supported that a significant increase of distressed companies and its stakeholders are becoming more aware of the use and advantages of Business Rescue and have increasingly started turning to it as the preferred distressed method, as opposed to placing a company in immediate liquidation (Mkhondo & Pretorius, 2017; Levenstein, 2016; Du Preez, 2014).

In order for any company in distress to survive, it is of crucial importance to obtain some form of funding. Research by Jijana et al., (2015), showed that the ability to gain access to distressed funding becomes increasingly more difficult the greater the level of distress and especially for companies under Business Rescue as these companies are one step away from liquidation.

2.2.3 Valuation

The term valuation is defined by 'the American Institute of CPAs' (AICPA, 2007), as "*the act or process of determining the value of a business, ownership interest, security, or intangible asset*" (AICPA, 2007, p.50). The 'Association of Insolvency and Restructuring Advisors' (AIRA, 2014) goes on further to state that valuation is the process of determining what the price or value of an asset or business is at a specific point in time (AIRA, 2014).

The Investopedia website defines Valuation as: (Investopedia, 2017, p. 1) *"the process of determining the current worth of an asset or a company; there are many techniques* *used to determine value. An analyst placing a value on a company looks at the company's management, the composition of its capital structure, the prospect of future earnings and market value of assets".*

According to Haddad, Loualiche & Plosser (2013), and the Association of Insolvency and Restructuring Advisors (AIRA, 2014), the buyout of any company or transaction will require a thorough valuation to be conducted. This required in order to place the investor in the best possible position to make an informed decision on whether or not the purchase of a company is of value and a good investment (AIRA, 2014; Haddad et al., 2013).

It is therefore important to understand how valuations work and to select the best method possible that will provide the most accurate value in order to put the person selling or buying the business in the best position to make an informed decision, especially when it comes to buying out distressed company (AIRA, 2014). According to Nel, Bruwer & Le Roux (2014), valuations in emerging economies is especially challenging as it poses risks such as volatility in an emerging country's currency and has high levels of uncertain market conditions, making it difficult for a proper valuation to be done in order to close a buyout deal (Nel et al., 2014). Before a valuation analysis can be conducted it is important to understand what the purpose of the valuation is, the information that is required for the valuation, as well as the valuation method to use in order to ensure a proper valuation (AIRA, 2014).

Earlier research done by Prokop (2013), stated that the valuation of a company is defined by what its fair market value might be and goes on to state that the fair market value of a firm can be the price of the company's shares the buyer and seller are willing to agree between themselves. Torchio & Surana (2014), in their research concurred on the statement of Prokop (2013), and stated that one of the analysis that can be used to determine fair market value is the discounted cash flow analysis, by calculating the cost of equity.

Howe & Lippit (2011), however conversely argued that the value is determined between a willing selling and a buyer as earlier stated by Prokop (2013), stating that further valuation can be done between the negotiations of a willing buyer and seller (Prokop, 2013).The distressed valuation report of AIRA (2014), stated that there a number of pieces of information are needed for the analyst conducting the valuation in order to be in the best position to fully understand the subject entity at hand in order to make as accurate valuation as possible. This includes having access to both financial and nonfinancial information which is crucially important in the valuation process as it will impact the analysis and will affect the outcome of the value of the distressed business (AIRA, 2014). The table below according to AIRA (2014), some of the nonfinancial and financial formation needed to be gathered include, but are not limited to the following:

Table 2: Valuation Information (AIRA, 2014, p.29 & p.30)

Nonfinancial	**Financial**
Nature, background and history of the Business	Historical financial information of the business for a number of years that is specifically appropriate to the required situation
Properties and Facilities of the business	Prospective financial information (for example, Budgets, Forecasts and Projections)
Structure of the organization	Sales, Costs and Margins by product or service
The products or services it sells	Income tax returns for an appropriate number of years
The Geographical market it targets and services	Comparative summaries of past financial statements covering a relevant time period
The Management team (ownership, directors and key employees)	Comparative ratio analysis for the subject entity covering an appropriate number of years
Who the key Customers are	Comparative ratio analysis including common size industry financial information for an appropriate number of years
Suppliers	Information on compensation, benefits and personal expenses of owners
Competitors	
Business Risks involved	
The Strategy and future plans of the Business	
The current Economic conditions	
Governmental or regulatory environment	

This information will assist the analyst to better understand how the subject entity operated in the past and also serve as an indicator of how the company can perform in the future which will impact the value of the company (AIRA, 2014). Following the information gathered a valuation method and approach needs to be selected that will best fit the subject company being valued, as well as the purpose thereof (AIRA, 2014).

In summary there are mainly three valuation approaches available for the analyst to use which is: 'Income Approach'; 'Market Approach'; and 'Asset-Based Approach' (AIRA, 2014). These three approaches as mentioned needs to be selected based on the appropriateness, purpose and intended use of the valuation as this will differ from the valuation situation at hand (AIRA, 2014; Lamana, 2017).

- The First Approach is the Income Approach (AIRA, 2014), also referred to as 'Intrinsic Valuation' (Lamana, 2017). This approach makes the assumption that the Fair Market Value of an Asset or Business is equal to the Present value of the future income the business expects to generate from the available assets (Lamana, 2017; AIRA, 2014). This approach is used when a firm or analyst wants to determine what future cash flows can be generated and expected from the Assets of the Business, taking into consideration the risks of the cash flows (AIRA, 2014; Lamana, 2017), this is referred to as the 'discounted cash flow' valuation (Lamana, 2017).

- The Second Approach is known as the Market Approach or the Relative Valuation (AIRA, 2014; Lamana, 2017). According to Damodaran (Lamana, 2017), this approach is used when the objective is to sell the business or asset at what it is worth today by using a number of Market multiples and arriving at a 'Fair Market Value' (AIRA, 2014; Lamana, 2017). This is done whereby a similar or comparable company in a specific industry in the market is used to be valued (Damodaran,1997; Lamana, 2017). Damodaran (Lamana, 2017), however cautions against this approach as he states that any current unstable Market conditions can almost always lead to portions of the Business to either be overvalued or undervalued due to changing market conditions, especially when it comes to public listed companies.

- The Third Approach is the Asset-Based Approach (AIRA, 2014), also referred by Damodaran (Lamana, 2017), as the 'Contingent Claim Valuation' (Lamana, 2017). Damodaran (Lamana, 2017), goes on to state that this method is best used either when a firm is over-levered and to be liquated, or for accounting purposes or when using 'the sum of the parts' valuation for Acquisition purposes (Lamana, 2017).

According to AIRA (2014), it is important for the Analyst conducting the valuation to identify and use the valuation methods and approaches that will be the most appropriate for the purpose of valuing the subject entity at hand, as this will affect the accuracy of the valuation (AIRA, 2014). Traditional valuation methods may require that significant adjustments be made in order to effectively and accurately show a reflection of the current unique financial and operating stance of the companies in distress (AIRA, 2014; Hrdy & Simek, 2012; Crystal-QC & Jameel-Mokal, 2005).

Examples of valuing a financially healthy company is that it is already assumed that the business is going to operate 'business as usual' and as such is viewed as a going-concern whose cash flows should continue in the future AIRA (2014). This assumption may not be as relevant to a financially distressed company, as the company still needs to undergo a rehabilitation process and be turned back into a going-concern. It therefore will need to be viewed as being of high risk and heavily indebted as the result will lead to a distressed company being overvalued if not taken into consideration (AIRA, 2014; Hrdy & Simek, 2012; Crystal-QC & Jameel-Mokal, 2005).

Other assumptions that also need to be factored in include the level of leverage, meaning how much debt the company has taken on versus an average company in order to see if it is overlevered or not, the ability of the company to secure cash flows, the short and long term impacts of changing the business strategy, uncertainty of achieving a financial or operational turnaround, limited amount of cash flows and the cost of the lending rates as these assumptions will all impact the value of the business (AIRA, 2014; Hrdy & Simek, 2012; Crystal-QC & Jameel-Mokal, 2005). Valuations need to take into account factors such as the opportunities and risks involved (based on market conditions), as well as the assets and future returns the company can provide in order to get an accurate valuation (AIRA, 2014; Erasmus, Van Rooyen & Oberholzer, 2012; Howe & Lippitt, 2011).

Based on the various literature reviewed on the lack of local distressed funds and the interest from foreign investors into the Business Rescue market (Levenstein, 2016; Jijana et al., 2015; Nickig, 2014), it provides further evidence that there indeed exists an academic gap and opportunity in the area of buying out distressed companies and assets (Mkhondo & Pretorius, 2017).

It is therefore important to understand how the value of a distressed company is determined, especially those under Business Rescue, as well as to establish what other factors will impact the value of these companies and affect foreign investors view of the company. If the value of a company under Business Rescue can successfully be understood, it can be utilised and strategically structured in order to attract foreign investors to buyout these companies, especially considering the relative newness of the industry and the opportunities available (Mkhondo & Pretorius, 2017; Levenstein, 2016; Nickig, 2014).

No existing literature was identified at the time of conducting the study that specifically relates to valuing companies under Business Rescue and understanding its value proposition. The researcher therefore sought to explore this identified gap in the academic literature.

2.2.4 Buyout and discounted buyout value

The Investopedia website defines Buyouts as: (Investopedia, 2017, p. 1) *"A buyout is the purchase of a company's shares in which the acquiring party gains controlling interest of the targeted firm. A leveraged buyout (LBO) is accomplished by borrowed money or by issuing more stock. Buyout strategies are often seen as a fast way for a company to grow because it allows the acquiring firm to align itself with other companies that have a competitive advantage"*

The buyout of a company is further defined as the *"purchase of a controlling interest (or percent of shares) of a company's stock"* (Harvey, 2012, p.1), or alternatively known as the investment purchase decision (Harvey, 2012). The buyout rate of a company is the value at which the company is available to buy (Levenstein, 2016). Should a financially healthy company for example in the same industry be available for a buyout at 80% of its current market value, taking into consideration the current economic conditions, it will likely be less attractive to foreign investors (Levenstein, 2016; Van Heerden, 2017; Goerzen, Sapp & Delios, 2010). If there however there is a prospective company under Business Rescue where the value of that company might be discounted to a rate of 20% of its actual market value and only requires a successful turnaround, it will tend to be more attractive for foreign investors to buyout as the assets are available at a much cheaper rate and can lead to above market returns (Levenstein, 2016; Africa Investor, 2013; Goerzen, Sapp & Delios, 2010).

It is therefore important to ensure that the discounted buyout value of the distressed company be accurately calculated by the valuation analyst and applied accordingly, as this will also affect the value of the business and the decision of a foreign investors on whether or not to buy the company (AIRA, 2014; Dyduch, 2014).

According to Powers (2014), there are further also five key numbers that an investor looking to buyout a company will need use in order to value and consider before buying a targeted company (Powers, 2014). These five numbers include the following:

1. The multiple of the companies' Earnings before Interest, tax, depreciation and amortization (EBITDA) (Powers, 2014). The multiple of the companies EBITDA is a financial instrument that will calculate what the future expected cash flows will be for the company (Powers, 2014).
2. The Growth in revenue (Powers, 2014). In this instance the company or investor will look at the company's historical growth and forecast growth for the next five years using a very conservative growth rate, usually lower than past growth rates (Powers, 2014).
3. The EBITDA margin (Powers, 2014). This is where the company's EBITDA is divided by your revenue (Powers, 2014). This margin is to indicate how the company has grown and how it potentially can grow in the future (Powers, 2014).
4. The amount of leverage used in a company (Powers, 2014). Leverage refers to the amount of debt the company is using to finance its Business (Powers, 2014).
5. The amount of ownership that the investor is buying, whether it is 100% or just 80% (Powers, 2014). This is used in order to calculate what the value of the stake will be the Investor seeks to buyout and it will be valued accordingly (Powers, 2014).

According to Nel et al., (2014), Damodaran found that a multiple-based approach is particularly a more popular approach used by Venture Capitalists and Private equity firms, as it observes market data that is available and finds that tends to be a more accurate approach than using the discounted cash flow approach that based on mere assumptions Nel et al., (2014).

As earlier discussed all of these factors will however be influenced by how the company is valued by the valuator taking into consideration the financial and nonfinancial information of the business, as well as the factors such as the amount of leverage the company is carrying (AIRA, 2014). It is therefore important to gather as much information as possible about the distressed company in order for the analyst to fully understand the prospects of the subject entity and ensure it is valued as accurately as possible (AIRA, 2014). This will ensure that the company under Business Rescue is in the best position possible to attract foreign investors (Nel et al., 2014; AIRA, 2014; Powers, 2014).

Based on this and looking at literature from the Quarterly Journal of INSOL International, Dr Eric Levenstein alluded that BR in South Africa is on the rise and that more creditors, companies and investors are beginning to see the value and advantages of BR which is leading to more investors, both locally and globally, looking to buyout distressed companies in the South African market, as it presents the availability of companies with good prospective value available at deep discounted prices (Coleman & Segal, 2017).

Examples of valuable distressed companies acquired by both local and global investors in the past include:

- Top TV, acquired by Chinese media and telecommunications company called ‘Star Sat’ (Benjamin, 2013),
- Clothing store Meltz acquired by ‘Hub’ (Levenstein, 2016).
- Pearl Valley Golf Estate acquired by Standard Bank (Levenstein, 2016).
- Advanced Technologies & Aeronautical Engineering acquired by Paramount (Levenstein, 2016).
- Moyo Restaurants acquired by Fournews (Levenstein, 2016).
- Optimum Coal Mine acquired by Tegeta resources (Levenstein, 2016).

Although majority of the aforementioned buyout examples were from local investors, it however shows that greater appetite is beginning to arise in the South African distressed industry, especially for companies under Business Rescue.

According to a report by Africa Investor (2013), along with the aforementioned examples, it shows that there is an opportunity to attract investors, specifically foreign investors, to buyout valuable distressed companies that are available at deep discounted prices.

It is of the view that from a foreign investor perspective, there exists opportunities to gain access to valuable assets in the South African distressed market, where local investors might either be too risk averse or not in a financial position to perhaps gain access to larger resource type assets (Africa Investor, 2013).

It therefore allows foreign investors the opportunity and overall advantage to seek and buyout these companies at discounted rates, which can deliver above market returns (Africa Investor, 2013). Levenstein (2016), also stated that foreign investors are seeing South Africa as an unsaturated emerging market with a lot of opportunity for distressed fund investors.

2.2.5 Foreign Direct Investment

Foreign investment is defined as *"the amount of financing provided by a foreign owner who is also directly involved in the management of the enterprise"* (Weigel, Gregory, & Wagle, 1997, p.9). The International Monetary Fund further defines Foreign Direct Investment as and when the International *"Investor holds 10% or of the Equity of an enterprise*" (Weigel et al.,1997, p.9). Blonigen & Piger (2014), in their study states that foreign direct investment also arises from a decision of either a firm or an individual to gain access and control to foreign assets in International markets (Blonigen & Piger, 2014).

According to Barkauskaite & Naraskeviciute (2016), foreign direct investment can be identified as being one of the single most effective tools to drive the economic growth of the invested country (Pinar, 2014). Barkauskaite & Naraskeviciute (2016), further also stated that a local country will seek to attract flows of foreign direct investment as much as possible, due to its various benefits and advantages to local economies.

Foreign investment can have a positive impact on the invested country by increasing labour productivity, decrease in unemployment rate, diffusion of technologies, human capital formation and can lead to international trade integration (Barkauskaite & Naraskeviciute, 2016; Pinar, 2014). Barkauskaite & Naraskeviciute (2016), also found from previous research that foreign investment, apart from creating jobs and reducing the rate of unemployment, the wages paid by international firms are often also higher than those by domestic companies.

According to earlier studies done by Davis, Haltiwanger, Handley, Jarmin, Lerner & Miranda, J. (2014), they further found that a buyout can have massive and positive impact on the company being bought as new skill levels, injected resources and increased productivity can be generated by the already established acquiring firm (Davis et al., 2014).

Based on the economic developments that commenced in April 2017, where South Africa was downgraded to junk status, local investors would however now be more cautious to invest in distressed companies (Van Heerden, 2017; Deloitte, 2017). Commercial banks are also becoming stricter on credit extension policies, which is leading to more expensive lending rates (Van Heerden, 2017; Deloitte, 2017; Ensor, 2014). It therefore is increasingly challenging for companies under Business Rescue to gain access to local funds (Van Heerden, 2017, Deloitte, 2017; Thomas, 2014). This increases the need to look for alternative solutions to gain access to funds, such as from a much more aggressive type of foreign investor who might have a greater appetite for risk.

With recent developments on the decision to downgrade South Africa to Junk Status this will however now also have a negative impact on institutional foreign investors as most of them are restricted and not allowed to invest in countries with junk status, due to the high risk involved (Van Heerden, 2017; Deloitte, 2017). This therefore gives motivation to look at foreign investors who area less risk adverse and aggressive in nature.

2.2.6 Foreign versus Local Investors

As mentioned in Chapter 1, local funders in South Africa are available including Private Equity firms, Venture Capitalists and banks (Deloitte; 2017), however these funders are either not yet moving fast enough for the Business Rescue industry or the risk involved is just too great (Deloitte, 2017; Sanchez, 2014). According to a recent survey report on restructuring in South Africa (Deloitte; 2017), banks are still seen as the best source of distressed funding. Although they are still being viewed as the main source, banks are very cautious to further extend funds to these distressed companies (Ensor, 2014). This showed that there is an opportunity to attract the required funding for companies under Business Rescue from possibly attracting foreign investors as an alternative solution.

Following recent discussions in Beijing, London and New York on the topic of Business Rescue, Levenstein (2016), found that there is an increased appetite from foreign investors into the South African Business Rescue market, as it is being viewed as an unsaturated emerging market that offers great value on assets to foreign investors (Levenstein, 2016). Some of these interested foreign investors include offshore distressed fund investors, Venture Capital firms, as well as offshore Hedge fund investors (Levenstein, 2016).

Based on the earlier research done by Ramasamy, Yeung & Laforet (2012), on ‘China’s outward foreign direct investment’, they also found that outward foreign investment has dramatically increased in recent years, especially from developing economies into other emerging economies. According to further research done by Jakada (2014), it was found that there has been a significant increase in foreign investment, not only from developed countries, but also from developing to other prospective developing countries. Sayaseng, (2016), concurred on both these statements stating that in the past decade there has been a tremendous increased amount of outward foreign investment being invested into other emerging economies.

This statement was also earlier confirmed by Nickig (2014), that an increasing interest is seen coming from foreign investors, especially from the eastern countries, to invest in the distressed Business Rescue market in South Africa. This is mainly due to the fact that some decent firms are available at very cheap prices (Nickig, 2014). The foreign investors such as the Chinese, are especially interested in emerging markets and are hunting for bargains in the mining and natural resource sector, renewable energy, real estate, property, construction and engineering (Sanchez, 2014).

This provides unique opportunities for South Africa, as the country will ultimately receive the overall benefits from foreign investment channelled through investments in Business Rescue (Nickig, 2014; Visser, 2015).

It is therefore the purpose of the researcher to do in-depth research, exploration and analysis into this subject topic to see what impact three recent global and local economic developments will now have on the outcome of foreign investors looking at opportunities in the South African Business Rescue market. These developments included Brexit, new US administration and the downgrade in credit ratings to Junk status in South Africa.

Based on the available literature reviewed, in the case of Brexit, the British will now operate independently from the European Union and this will impact the way trade and investment is conducted into and out of the UK (Hunt & Wheeler, 2017). According to Gibb (2016), the credit rating company Moody's stated that this will impact the foreign direct investment into South Africa, both positively and negatively, as South Africa is seen as one of the largest recipients of foreign investment from the British, especially in the mining and financial services (Gibb, 2016).

Van Heerden (2017), believes that the new administration of the United States will however negatively impact the flow of foreign direct investment into South Africa, as the US now has a more inward-looking investment approach and moving toward a greater protectionism economy by focussing on local inward investment as opposed to outward foreign (Van Heerden, 2017). Van Heerden (2017), further states that South Africa's recent downgrade to Junk Status will impact foreign investors decision, as they will be more cautious and see investment into South Africa as costly and of greater risk due to the current economic and political instability (Deloitte, 2017; CFO, 2017).

The researcher however believed, despite the aforementioned developments, that new opportunities could now be created in the distressed market to identify and attract different types of foreign investors who are less risk adverse and more aggressive in nature and now look at investing in South Africa. This could further lead to both the Business Rescue market and distressed industry in South Africa develop faster and in future, provide Business Rescue and turnaround practitioners with additional funding options.

2.2.7 Opportunities and threats to entry for foreign investors to buyout companies under Business Rescue

Foreign investors will also take into consideration the various opportunities and threats a country like South Africa might present in order to determine whether it is indeed a viable option to invest in or not. According to Levenstein (2016), Nickig (2014), and Thomas (2014), great interest is seen from foreign investors into the distressed South African market (Levenstein, 2016; Nickig, 2014; Thomas, 2014).

As earlier mentioned, looking at the recent global and local economic developments (Van Heerden, 2017), this could however now influence the decision of foreign investors regarding where to invest and what type of investments to make (Van Heerden, 2017; Oxford Economist, 2016)

Considering both opportunities and threats to entry becomes a critical aspect for foreign investors to determine, as these factors will now greatly impact the buyout value of the distressed company, as well as the outcome of foreign investors eventual decision on whether or not to invest. Factors such as the size of the deal in South Africa, as well as the risk profile should also be considered to see if it will have a determent impact on foreign investment.

2.2.7.1 Opportunities

Looking at the opportunities for foreign investors:

- Decent distressed South African companies presenting great future prospects are available to buyout at much reduced prices (Levenstein, 2016; Visser, 2015; Nickig, 2014).
- Foreign investors can bypass many obstacles of entry usually associated with foreign investment, as they can buyout companies with already established networks and infrastructure, industry related management skills, local knowhow, as well as an entry into both the South African and African market (Jakada, 2014; Nickig, 2014).
- Africa, and specifically South Africa, offers great opportunities for foreign investors interested in large deposits of natural resources (Ramasamy et al.,2012).
- Further opportunities for buying out companies in South Africa under Business Rescue, is the already implemented protection of the automatic stay on payments to creditors, providing foreign investors with additional time to pay off the owing debt, due to moratorium put in place (Pretorius & Rosslyn-Smith, 2015; Jijana et al., 2015; Bradstreet, 2010).

- If a highly qualified and skilled Business Rescue practitioner is appointed, there is also the added benefit of a proper Business Rescue plan already put in place by the practitioner that will assist foreign investors to turn the company around into a going-concern as soon as possible and to channel resources accordingly (Jijana et al., 2015; Pretorius & Rosslyn-Smith, 2014).
- The other added opportunity also available for foreign investors is the temporary supervision provided by the local Business Rescue, who already has an established network of strategic partnerships with both regulatory authorities and financial institutions who can assist foreign investors with the local knowhow and assist with the implementation of the Business Rescue process (Jijana et al., 2015).

2.2.7.2 Threats

Looking at the threats foreign investors could face included; expropriation or nationalization by local government on assets, especially in emerging economies that have strong financial institutions and are rich in natural resources (Fitzpatrick & DiLullo, 2009). Goerzen, Sapp & Delios (2010), suggest further threats to entry is related to the local environment of the identified investment market, in which environmental risks will have a substantial impact on the foreign investment strategy (Goerzen et al., 2010). These environmental risks include political, cultural, financial and economic risks, briefly explained below:

- **Political –** sudden changes in unfeasible policies or political party changes, as well as corruption in local government (Sayaseng, 2016; Goerzen et al., 2010), can negatively impact the investment and lead to *“unfair appropriation or outright expropriation of assets or of revenue streams”* (Goerzen et al., 2010, p.696). Putting this into a South African following the recent cabinet reshuffle that took place, many economists and investors believed affected credit rating companies’ decision on South Africa’s downgrade to Junk Status, due to their perception of South Africa being politically and economically unstable (CFO, 2017; Van Heerden, 2017).

- **Cultural -** Cross-cultural issues can impact the decision and value of the investment, especially where differences in work ethics and language barriers exist, as well as the interests of local employees and trade unions might not be aligned with the interest of foreign investors (Goerzen et al., 2010).

- **Financial -** Includes factors such as *“loans in default or unfavourable loan restructuring, delayed payment of suppliers’ credits, repudiation of contracts by* *government, losses from exchange controls, and expropriation"* (Goerzen et al., 2010, p.696). In the context of South Africa, the loans repayable by the government to foreign lenders will now be more expensive and difficult to repay, following the recent downgrade to Junk Status and might pose a threat to foreign investors (CFO, 2017; Van Heerden, 2017).

- **Economic -** Economic risks include items such as annual inflation, taxes and foreign exchange rates involved, especially in emerging markets (Sayaseng, 2016; Goerzen et al., 2010). These types of measures evaluate the different aspects of a local country and provide a good indication of its economic health and the level of risk involved (Goerzen et al., 2010). Bringing this into the context of South Africa following the downgrade, the long-term point of view from economists is that inflation will rise, lending rates of loans will be more expensive to repay, and imports of goods and services will be more expensive (CFO, 2017; Deloitte, 2017; Van Heerden, 2017).

According to Goerzen et al., (2010), these environmental risks will determine the level of projected financial returns foreign investors expect to receive and ultimately impact the value of the investment (Goerzen et al., 2010). Polemis & Gounopoulos (2012), confirms in their research on the importance of identifying and understanding the risks involved when considering investments, as this will ultimately impact investors' investment decision (Polemis & Gounopoulos, 2012).

2.3. Conclusion

Based on the statement from Hrdy & Simek (2012), combined with the various articles and reports reviewed on companies in Business Rescue, valuation and foreign investments it provides evidence that there exists an academic gap in the area of valuing distressed companies under Business Rescue due to its relative newness (Deloitte, 2016; Jijana, 2015; Thomas, 2014). Analysis can further be drawn that funds are becoming more difficult to access, as banks are becoming stricter on credit extension policies and local distressed funders are also becoming more risk averse due to the current volatility of the economic markets (Van Heerden, 2017; Deloitte, 2016; Ensor, 2014).

This makes it more difficult for companies under Business Rescue to gain extension on loans or further access to funds (Deloitte, 2016; Jijana, 2015; Thomas, 2014). It therefore increases the need to look at other alternative opportunities, such as on an international level. Internationally conducted research done by Ramasamy et al., (2012), Jakada, (2014), and Sayaseng, (2016), indicated that a significant increase in outward foreign investment seems to be occurring between emerging markets, giving rise to the fact that opportunities exists to attract foreign investors to buyout local distressed companies.

Levenstein (2016), concluded on the opportunity available for the Business Rescue market to seek buyout opportunities from foreign investors (Levenstein, 2016; Nickig, 2014). The increased appetite in distressed fund investing was further expressed by Levenstein (2016) following recent engagements in New York, Beijing and London on this topic confirming that foreign investors are increasingly interested in the South African distressed market, providing them with the opportunity to get their hands-on companies in Business Rescue that are available at a good value (Levenstein, 2016).

CHAPTER 3: RESEARCH PROPOSITIONS

In the previous chapter the available literature on the sources of funding available to companies under Business rescue, as well as the opportunity of attracting foreign investors to buyout these companies were discussed. The purpose of this research is to explore the situation of funding to companies under Business Rescue and to see whether attracting foreign investors to buyout these companies will be a greater opportunity for the Business Rescue industry. This will be done by taking into consideration the current volatile status of both the global and local economic market conditions. The emphasis of this chapter is therefore to confirm six research propositions. These propositions will assist in guiding the research study to bring focus and purpose to the literature reviewed and also address the challenges that arose from the previous chapters:

- **Proposition #1** Locally, distressed funding for companies under Business Rescue is currently limited
- **Proposition #2** Foreign investors are increasingly becoming aware of valuable distressed assets available in South Africa
- **Proposition #3** The discounted value at which distressed companies in South Africa can be bought at increases the appeal and attractiveness to foreign investors
- **Proposition #4** Foreign investors buying out distressed companies will yield a better return for creditors and increase the success rate of Business Rescue
- **Proposition #5** The protection of the moratorium of companies under Business Rescue and the amount of debt the company under Business Rescue owes creditors will impact foreign investors' view of the value and attractiveness of the buyout
- **Proposition #6** Global and local economic developments will positively impact foreign investors' investment decision and bring new opportunities for foreign investors into the Business Rescue Market

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

The purpose of Chapter 3 was to explain the research propositions that were tested in the research study on the topic of valuing companies under Business Rescue to attract foreign investors. This was further aligned with the literature review and presented in Chapter 2 that led to forming the interview questions outlined in the interview schedule that were used during each in-depth interview with both semi-structured and open-ended interview questions. The research methodology used to collect and analyse the data in order test each of the six propositions is presented and described in this chapter. Due to the newness of the field of this specific focussed area of study, the research methodology adopted was one of a qualitative and exploratory approach, which further also supported the research design, the sample used as well as the analysis.

4.2 Research Methodology and Design

4.2.1 Rationale for the chosen method of research

The field of Business Rescue is still perceived as being new, as the Act only came into effect on the 1st of May 2011 (Burke-le Roux & Pretorius, 2017). Based on this and considering the newness on this focussed area of study, the choice of methodology used was a qualitative and an exploratory approach (Saunders & Lewis; 2012). Zikmund, Babin, Carr & Griffin (2013), further confirmed that exploratory research is the needed methodology to use in order to source new information. Zikmund et al., (2013), further stated that "*exploratory research provides new insights – the domain of discovery in philosophy of science terms and often sets the groundwork for further investigation*" (Zikmund et al., 2013, p.16).

Saunders & Lewis (2012), further stated that the reason to use a qualitative method is supported by the fact that exploration into this field is required in order to gain new insights into the new focussed area of study. This was supported by the fact that limited data was available on this specific topic and most of the knowledge wealth currently sits with industry experts in the field of Business Rescue. A deductive process was used to the test the propositions identified and outlined in the previous Chapter, and the research strategy developed was utilised to do it (Saunders & Lewis, 2012). This deductive approach focussed on constructing propositions that were derived from literature reviewed and presented in chapter two, after which testing was done and adjustments to the propositions by conducting semi-structured interviews. This type of analysis identifies and explains the embedded knowledge of expert Business Rescue and turnaround practitioners, as well as financiers who have extensive experiences in both formal Business rescue and informal turnaround processes. With Table 2 serving as a framework, this study focuses on describing what the current availability of local distressed funding is, as well as exploring the opportunity of looking to attract foreign investors to buyout distressed companies under Business Rescue.

Table 2: Research design components based on the design description of Yin (2003, p21).

Component	***Description***
Research question or problem	Is there an opportunity to attract foreign investors to buyout distressed companies who are under Business Rescue?
*Propositions**	• Proposition #1: Locally, distressed funding for companies under Business Rescue is currently limited • Proposition #2: Foreign investors are increasingly becoming aware of valuable distressed assets available in South Africa • Proposition #3: The discounted value at which distressed companies in South Africa can be bought at increases the appeal and attractiveness to foreign investors • Proposition #4: Foreign investors buying out distressed companies will yield a better return for creditors and increase the success rate of Business Rescue • Proposition #5: The moratorium and the amount of debt a company under Business Rescue owes creditors will impact its value and attractiveness • Proposition #6: Three recent global and local economic developments will create new opportunities into the local distressed and Business Rescue market and attract more foreign investors
Unit of investigation	The value of companies under Business Rescue and the opportunity to attract foreign investors to buyout distressed companies
Unit of analysis	Industry experts consisting of business Rescue and turnaround practitioners (Senior BRPs) and financiers
Logic linking the data to the propositions	Industry experts were asked about their knowledge and awareness on issues and opportunities in the current Business Rescue and the distressed industry space. Their experience, should significantly reflect and assist regarding their responses and decision making.
Criteria for interpreting the findings	Agreeing and/or contradictory statements on availability of resources, limitations and opportunities as reported in the current mainstream literature
**The propositions were set to provide structure to the research process and support the research question.*	

The propositions provided structure and constructed a framework that guided the process of both data collection and analysis. These propositions were then tested, verified and, where required, modified against the authenticated data that led to the conclusions.

Saunders & Lewis's (2012), definition of exploratory research concurred with that of Zikmund et al., (2013), stated that this method is used for "*research that aims to seek new insights"* (Saunders & Lewis, 2012, p.110). This is conducted by asking a series of new questions and also by conducting interviews with experts and specialists in the specific field (Saunders & Lewis, 2012). Guercini (2014), further stated that qualitative research methodology is also crucially important in creating knowledge for specific entity decision makers such as managers and also to build information bridges between researches, practitioners and managers.

4.3 Population

The population the researcher identified as most relevant for this qualitative study was industry experts in the field of turnaround and Business Rescue in South Africa. The industry experts included individuals who served in roles from various backgrounds of Business Rescue and turnaround practitioners, as well as specialists from financial institutions. The researcher deemed all of these industry experts as relevant, as each individual served as specialists in their respective fields with a vast number of combined years of experiences that brought unique insights into the specific field of study that significantly contributed to the overall validity and reliability of the data received. These industry experts have either previously served as advisors, consultants or as financiers in previous restructuring and rescue cases.

4.4. Unit of Analysis

The primary unit of analysis for this research study was industry experts in the field of turnaround and Business Rescue. These industry experts included senior Business Rescue and turnaround practitioners, as well as specialists from different financial institutions.

4.5. Sampling Method and Size

The sampling technique the researcher decided on and used for this specific exploratory study was a non-probability sampling technique, consisting of purposive sampling (Saunders & Lewis, 2012). Saunders & Lewis (2012), refers to this sampling method and technique as one that is specifically used in qualitative data gathering. Saunders & Lewis (2012), also further stated that this method is used when a researcher takes his own judgement into account in order to determine the specific set of sample members the subject intends to use (Saunders & Lewis, 2012).

Based on the fact that specific industry experts needed to be identified and selected in order to accurately answer the interview questions derived from the research propositions that pertained to the research topic, further supports that a purposive sampling method was used. As earlier mentioned Saunders & Lewis (2012), stated as well, that a purposive method requires the judgement of the researcher to identify who the best sample of respondents will be to most accurately answer the questions. This technique used was very useful, especially in critical cases which assisted in understanding and determining crucial points that were raised by both the interviewer and the expert interviewees, as well as the expert ability from the interviewees to address the aim and objectives in the process of conducting qualitative research on this specific topic (Saunders & Lewis, 2012).

The industry experts further also provided useful advice to the researcher that assisted with value add to the final outcome of the overall project. The industry experts were collectively identified and selected through the contacts of the supervisor and through additional contacts that were made available to the researcher by some of the initial interviewees conducted in the stages of the research process.

As this was a qualitative research study conducted, only a small focussed sample size was identified and used. The sample size consisted of 13 industry experts who are, as earlier stated, all experts in their respective fields in the restructuring and Business Rescue space. These 13 individuals were executives, directors or senior managers who either led a team of experts or served as consultants, advisors, or financiers in past restructuring and Business Rescue cases.

A further screening process was also applied in order to ensure that the industry experts selected fitted the intended research study. This therefore supported the credibility and reliability of the data collected for this specific research study, due the wealth of knowledge among these industry experts that significantly added to the overall value of the research findings.

Guest, Bunce & Johnson (2006), found in their research analysis that when conducting a qualitative research study, data saturation is said to occur most of times after 12 interviews have been conducted. Based on the findings by Guest et al., (2006), the researcher concurred on this point as data saturation was being experienced after 12 interviews and the researcher therefore decided to conclude the interviews and data collection process after 13 interviews, as no new significant data was being gathered that could further add substantial value to the respective research study.

4.6. Data collection tool

According to Saunders & Lewis (2012), one of the most effective ways to gather exploratory research information, is firstly through searching and reviewing relevant academic literature which is then followed by conducting face-to-face and in-depth interviews. As stated, 13 face-to-face, in-depth and semi-structured interviews were therefore conducted with industry experts in the restructuring and Business Rescue space (Guion, 2006).

These 13 industry experts interviewed were all from different sectors in the respective distressed space (Guest et al., 2006). Semi-structured interviews were conducted, with open-ended questions asked to the interviewees (Saunders & Lewis, 2012). In general discussions, all interviewees were asked the general interview questions as outlined in the interview schedule under Appendix 3. Depending on the flow of each interview, as well as the time availability of each interviewee, a few additional open-ended questions were asked to some participants in order to further explore any contradictory or agreeing responses they provided on the research topic that was of notable interest that the researcher felt would add additional value to the overall outcome of the research study.

The in-depth interview times varied among the different participants, depending on the availability and time of the interviewee. The longest recorded interview lasted 117.53 minutes and the shortest recorded interview lasted 39.69 minutes. The average interview lasted approximately 62 minutes. All interviews were conducted at a location that was most convenient for each interviewee of which majority occurred at the place of work of the interviewee, one at a business school campus, one at the home of interviewee and another by way of teleconference due to the availability and distant location of the participant (Saunders & Lewis, 2012).

The selected interviewees were all individually invited in advance to part-take in the research study by way of electronic mail. The purpose and content of the research study was explained upfront to each individual and every participant was also able to review the consent form beforehand. If agreed to partake, an electronic mail of confirmation was then sent back to each individual, including a meeting request stipulating the proposed date and time, along with the agreed upon destination (Saunders & Lewis, 2012). An example of the extended invitation is herewith attached under appendices, as Appendix 1.

Once meeting request was accepted and prior to commencement of each interview, adequate information on the industry of the individual, as well as the background of the individual and the organisation of the interviewee was gathered and reviewed accordingly before meeting up with each participant (Saunders & Lewis, 2012).

A consent form, attached under Appendices as Appendix 2, was provided to each individual interviewee participant to complete and sign in order of acceptance and to ensure data is gathered in an ethical manner (Saunders & Lewis, 2012). Each interview was individually recorded using both handwritten notes as well as an audio recorder, with clear permission granted by the individual interviewee.

The general semi-structured interview questions asked, along with propositions are also herewith attached under Appendices, as Appendix 3. These questions however served as guidelines and was not restricted, as mentioned earlier, to these sets of questions alone (Saunders & Lewis, 2012). Both the Interviewer and interviewees had the opportunity to guide the interviews as they deemed fitting and necessary for further discussions on the specified topic. Once all the desired data information was gathered, the interview was concluded in an orderly and formal matter. After which an opportunity was granted to participants for any final questions or thoughts.

Final summary of the notes were gathered and voice recorder switched off (Saunders & Lewis, 2012). The gathered information, both written and voice recorded was formally processed and transcribed, with analysis performed afterwards (Saunders & Lewis, 2012). A formal post note of appreciation was also sent afterwards to each interviewee which thanked them for partaking in the study. An example of the post-interview appreciation note that was used is attached under Appendices as Appendix 4. The interview guideline and design were based on the academic information gathered that was presented in chapter two and the research propositions developed in chapter three.

4.7 Data collection

The data was collected by conducting semi-structured, in-depth interviews with 13 industry experts, using open-ended questions and mostly face-to-face interviews with the exception of one interview being done telephonically (Saunders & Lewis, 2012; Stokes & Bergin, 2006). The qualitative exploratory research was done by means of interviewing various industry experts being involved previous turnaround or Business

Rescue cases. Each interview lasted approximately 45 minutes to 90 minutes, which was all dependant on the flow of teach interview, as well as the time available from each interviewee. An example of the full interview guide is herewith attached under Appendices, as Appendix 3.

In-depth interviews were used as Stokes and Bergin (2006), found in their study that in-depth interviews provide a more superior ability to gather important information on the underlying and well-defined issues that seeks to be addressed. The researcher adhered to further crucial guidelines that were offered by Guion (2006), which pertains to in-depth interviews. This included:

(i) Open-ended questions were asked. This ensured that respondents not to just provide a simple yes or no answer, but allowed them to elaborate on the topic
(ii) The format of the individual interviews were all semi-structured of nature with a few pre-planned questions used, while also naturally allowing for further free flow of conversation and any additional questions to be asked.
(iii) The interviewer sought further understanding and clarification of what was heard and therefore searched for deeper clarity and certainty on some of the points mentioned by the interviewee during the interview process.
(iv) The researcher used a notepad and an audio recorder to record all responses.

The researcher spent an adequate amount of time on preparing beforehand for each interview in order to ensure to build a reliable and valid rapport. The researcher therefore adhered to principles, as presented by Leedy & Ormrod (2001), on conducting interviews that are productive. The data collected by means of using an audio recorder, which was afterwards transcribed by use of a transcriber and word processed along with data from the notepad formed the data that was used for analysis (Saunders & Lewis, 2012).

4.8 Data Analysis

As data was collected, both text and non-text, the data was transcribed by use of a transcriber. As the transcribed data for each interview was individually received back from the transcriber, the data was reviewed in an attempt to better understand and interpret the information received (Saunders & Lewis, 2012).

This information was then analysed and connections were made with the data of each of the interviews (Saunders & Lewis, 2012). Following this, comparisons between the data collected followed and were formed. Thematic content analysis was used to analyse the qualitative data (Oliveira, Bitencourt, Teixeira, & Santos, 2013). Thematic content analysis is defined by Oliveira et al., (2013), as *"a set of analytical techniques (syntactic, lexical and thematic), in which systematic and objective procedures are employed to describe the content of messages, using qualitative or quantitative indicators that allow knowledge to be inferred*" (Oliveira et al., 2013, p.305)

As the name states, Thematic Content analysis involves *"describing content based on themes"* (Oliveira et al.,2013, p.305). Thematic content analysis, is a method used in qualitative data to identify themes or patterns (Braun & Clarke, 2006). The process of the thematic content analysis that was followed is step-by-step outlined in Table 2 below:

Table 3: Phases of Thematic Analysis (Braun & Clarke, 2006, p. 87)

Phases	Description of the process
1. Familiarizing yourself with your data	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas
2. Generating initial codes	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code
3. Searching for themes	Collating codes into potential themes, gathering all data relevant to each potential theme
4. Reviewing themes	Checking if the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic 'map' of the analysis
5. Defining and naming themes	Ongoing analysis to refine the specific of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme
6. Producing the report	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis

During the process, all transcripts were thoroughly read and recordings listened to on a continuous basis to allocate units individually to specifically identified categories. Codes were further also being generated at the same time and assigned to the data features accordingly (Zikmund et al., 2013 Saunders & Lewis, 2012; Braun & Clarke, 2006). Following this process, themes were created by identifying and generating constructs, thoughts or ideas that came up repeatedly during discussions and were deemed as important pertaining to the interview questions (Saunders & Lewis, 2012; Braun & Clarke, 2006).

The researcher made use of Microsoft Excel to design a template for analysis purposes. Analysis was done for each research proposition on a question-by-question basis. This section of the thematic content analysis was also further supported by using frequency analysis. All of the constructs and the number of times they appeared were captured after which they were ranked in order of appearance from high to low. The themes developed and insights that emerged from the individual interviews were then linked and analysis performed accordingly pertaining to each proposition.

Once the information from all interviews were collected and reviewed, the proposed theory was tested against the actual data received. Following this, the validity and reliability of the information was assessed and final conclusion formed and reported in a clear and logical way (Saunders & Lewis, 2012).

4.9 Data Validity and Reliability

When conducting a research study, it is important to ensure that research findings are both valid and reliable when evaluating measurements, as the process could have been exposed to number of biases and the researcher needs to ensure these risks are mitigated to the best of his or her ability (Zikmund et al., 2013 Saunders & Lewis, 2012). The exposure to biases is especially an area of concern when it comes to qualitative research study, as the nature of qualitative data tends to be considered as subjective by nature and can be greatly affected by these biases (Zikmund et al., 2013 Saunders & Lewis, 2012).

In order to address this and limit these biases to ensure reliability and validity of the data being collected, the researcher made use of an interview schedule that served as a guideline and ensured that the semi-structured, main interview questions were standardized for every individual participant. The interviewees were also given a great deal of freedom to elaborate and further explore on the topic as discussions proceeded during the interview process.

Further also being aware of some the potential biases that could occur and addressing them accordingly assisted in mitigating the influences these biases could have on the process. A strict application process was furthermore followed when the specific sample was selected. This was based on using specific criteria for the screening process when the industry experts were selected.

4.10 Limitations

As this was a qualitative exploratory study, involving personal face-to-face interaction, the potential of human error to occur was possible (Saunders & Lewis, 2012). Saunders & Lewis (2012), state that there are some factors involved that can restrict and affect the outcome of the findings. These factors are based upon simple human error occurring upon communication between parties in the interview, leading to either misunderstanding of the questions asked or the information provided was misinterpreted (Saunders & Lewis, 2012). It is therefore important to understand what limitations and errors might occur during a qualitative study, as this will impact the outcome of the results.

Some limitations include the following:

- The interviewer may not be experienced in conducting interviews (Agee, 2009)
- The sample has the ability to shift from Judgemental to Convenience sampling (Saunders & Lewis, 2012), due to its nature of how it was selected from the different sectors (Saunders & Lewis, 2012). If this shifting indeed occurs it can skew data and impact results (Saunders & Lewis, 2012; Zikmund et al., 2013).
- Due to the nature of the sample, limitations such as geographic location of the various experts, whether local or international, can also affect results and potentially skew data.

According to Saunders & Lewis (2012), there are also four principle factors that can impact the reliability of the findings and conclusions. Saunders and Lewis (2012), state that reliability is whether or not the data collection methods and analysis used and done during the research procedure will produce the consistent and reliable findings required (Saunders & Lewis, 2012). The four factors that can threat reliability of findings are termed as Subject error, Subject Bias, Observer error and Observer Bias (Saunders & Lewis, 2012).

Each of these factors are briefly defined by Saunders & Lewis (2012), as the following:

- **Subject error**: *"Measurement which may take place at different times"* (Saunders & Lewis, 2012, p.128), example is doing an interview at night time versus day time. This can have impact the information received, as a participant can be in a different *"state of mind at a different point in time"* (Saunders & Lewis, 2012, p.128).

- **Subject Bias:** is defined as the Research subjects that give incorrect information due to threat of telling the truth or fear confidentiality of information being provided to the interviewer (Saunders & Lewis, 2012).
- **Observer Bias:** is the way in which researchers may frame and ask questions differently that can lead to biased information received (Saunders & Lewis, 2012).
- **Observer error:** Is the error made by researchers in which data is interpreted completely different from what it was supposed to come across (Saunders & Lewis, 2012).

Bearing this in mind, it is important to understand what the limitations are that can occur during conducting a research study, especially with face-to-face interviews (Saunders & Lewis, 2012). Marshall & Rossman (2006), further listed some of the weaknesses and limitations of in-depth interviews that could exist. This includes the following:

- The interview Involves personal interaction and therefore cooperation is a crucial element (Marshall & Rossman, 2006; Du Preez, 2012).
- Interviewees may feel uncomfortable or unwilling to openly share all the required information that they feel the interviewer expects from them (Marshall & Rossman, 2006; Du Preez, 2012).
- Interviewer may also not have the adequate skill levels required to ask questions that can evoke the proper and required narratives (Marshall & Rossman, 2006; Du Preez, 2012).
- Interviewee may have valid reasons not to be honest and transparent when answering certain questions (Marshall & Rossman, 2006; Du Preez, 2012).
- Analysts-constructed typologies are also generated (Marshall & Rossman, 2006; Du Preez, 2012). The Researcher generates these typologies which are grounded in the data (Marshall & Rossman, 2006; Du Preez, 2012). This however does not necessarily mean it will be explicitly used by the individual participants of the study (Marshall & Rossman, 2006; Du Preez, 2012).

4.11 Conclusion

Based on the relative newness of the field of study, especially the focussed area of the research topic, a Qualitative exploratory methodology approach was used (Saunders & Lewis, 2012). It was crucial to understand what limitations could have occurred during the research study and, where possible, to ensure to restrict them to a minimum in order to gather the correct information. The process therefore of how information was gathered during each of the interviews were very important, as this set the groundwork for the final analysis and conclusion. The proposed research methodology, if correctly gathered, enabled the researcher to gain new insights (Saunders & Lewis, 2012), into the specified field. This was done by exploring and interviewing industry experts in order to better understand how the value of a company under Business Rescue is determined and how foreign investors can be attracted in order to buyout these distressed companies. Chapter 5 will present the findings and results of the information gathered during the semi-structured in-depth interviews.

CHAPTER 5: RESULTS

5.1 Introduction

In Chapter 4, the research methodology used to test the six propositions outlined in Chapter 3 were explained and therefore shows that the results presented are in alignment with the research propositions explained in Chapter 3. The research methodology the researcher decided to use was a qualitative and exploratory methodology. This research methodology was selected due to the relative newness of the Business Rescue industry and the newness of the specific research topic of attracting foreign investors to buyout these distressed companies.

In Chapter 5 the findings of the six propositions formulated in Chapter 3 are presented and laid out accordingly. This Chapter provides findings of the data analysed which were collected by doing in-depth, semi-structured, one-on-one interviews with individuals who are industry experts. The industry experts selected each originate from different backgrounds with a vast amount of experience in the corporate turnaround and Business Rescue industry. Thirteen participants were selected and interviewed, in which majority of these industry experts consisted of Business Rescue practitioners and financiers working in South Africa, mainly in and around the Gauteng province and in the Western Cape province.

The interview questions that were used to test the propositions were derived through the use of a consistency matrix and plotted out against each of the six research propositions from Chapter three. This assisted with the flow of the structure and ensured that there remained consistency between the literature reviewed, research propositions outlined, the process of data collected, as well as the method used for the analysis. Chapter five commences by briefly describing the focussed sample identified and used, and also provides an outline of the data analysis process that was followed.

Following this, is a discussion of the results of each proposition unfolds, where the main themes and observations under each proposition are discussed, after which each of the major sub-themes per proposition is expanded.

This Chapter finally concludes with any additional research findings identified and summarizes key findings that will be further scrutinized in Chapter six to follow.

5.2 Description of sample

A total of thirteen Industry experts were selected and all interviews were individually conducted. The industry experts consisted of a various mix of individuals from various unique backgrounds in the distressed and Business rescue industry, consisting of Business Rescue practitioners (all who are registered on the CIPC), financiers, lawyers as well as other specialists in the field of restructuring. This process was done over a period of nine weeks.

All of the interviewees selected are specialists in their own respective fields of restructuring and Business Rescue and have served in the corporate turnaround industry as either an advisory or consultancy role in the South African distressed market. Majority of these industry experts also have experience of well over 20 years in the distressed industry. Some of the interviewees also have global networks and knowledge exposure to international distressed markets, as well as the knowledge and experience regarding formal restructuring processes of developed markets such as the US, Australia, UK and Canada which added to the richness and quality of the data received.

Out of the thirteen individual interviews conducted, twelve were conducted with face-to-face interviews and one by way of teleconference due to the geographic location of the participant and the limited availability of the participant. The duration of each interview lasted on average approximately 60 minutes. A summary of the interview statistics is found briefly in Table 4 below:

Table 4: Interview Statistics

Description of Interviews	Quantity
Total number of interviews	13
Total length of all interviews	814.37 minutes
Average length of interviews	62.64 minutes
Longest interview	117.53 minutes
Shortest interview	39.69 minutes

All of the interviewees who partook in the study were willingly to participate, easily accessible and also very helpful towards contributing to the research study. The sample identified and obtained was a very specific and uniquely focussed sample to address the specific topic of valuing companies under Business Rescue to attract foreign investors. The focussed sample assisted by enabling the researcher to effectively test the six research propositions outlined in Chapter three. The findings of the objectives were therefore deemed as sufficient and of a satisfactory level.

Where and when required, follow-up sessions were arranged and held either by way of teleconference or with second face-to-face interview session in order to get clarification on certain aspects of the topic and/or addressing any additional questions.

The participants that were interviewed all hold very high level senior positions at their respective companies with rich experience in the distressed industry. A list of the industry experts that were interviewed can be found under Appendices, as Appendix 5.

5.3 Data Analysis and Presentation of Results

As the research was exploratory and qualitative in nature, the researcher affirms that 13 expert Interviews was an appropriate number for the rate of responses required for this focussed field of study.

The selected research design method were semi-structured interviews and depending on the quality and the richness of each individual outcome was on the responses from each individual, a few additional open-ended questions were further asked to some of the participants. This was done in order to further probe and establish any additional or contradictory information that was received that further enriched and contributed to the final outcome of the research study. The researcher felt that this would ultimately add greater value to both the future academic base and business arena.

A general set of semi-structured questions were asked to all participants, however not all respondents were asked all of the additional questions, as this was dependent on the outcome and flow of each interview and largely dependent on the availability of time of the interviewees.

5.4 Results: Research Proposition One - Locally, distressed funding for companies under Business Rescue is currently limited

5.4.1 Introduction and Overall Results

The aim of proposition one was to determine if local distressed funding in South Africa is still perceived as limited, especially for distressed companies under Business Rescue looking to source local funds in order to survive the full duration of the Business Rescue period.

The four interview questions pertaining to Research Proposition one, was specifically designed to establish who the typical local distressed funders or investors currently are (if any), what the current status and limitations of distressed funds are in South Africa, how the distressed and Business Rescue industry can be adapted to better assist in attracting more local distressed funders (or develop new types of distressed investors), as well as establishing what the future incentives or opportunities might be with regards to assisting companies in financial distress.

Depending on the nature of the answers and outcome of each individual participant, questions were structured and adapted accordingly as the researcher felt necessary in order to probe and stimulate more exploratory outcomes to create and add as much value as possible. The four questions asked are stated and referenced as question one, two, three and four and a summary of the questions used can be found in Appendix 3 under Proposition 1.

5.4.1.1 Identification of Distressed Funders

Industry players have earlier been identified in the academic literature to only being a limited number of distressed funders available (Jijana et al., 2015; Pretorius and Du Preez, 2013). This therefore shows the relevance of the question for the researcher in order to establish and know who these current industry players are, why they are identified as such and on what basis they make decisions on whether or not to extend funds to companies in distress.

It was further important to establish a common base from which to work off when interviewing and analysing the data from each interviewee. This was in order to identify any similarities and differences that arose, to ensure that the information received is transparent and reliable, also to ensure that there is consistency throughout Research proposition one, as well as the overall research study.

Some of the Interviewees had similar and direct focussed points of view when it came to the approach of answering this question, whilst others had a broader more elaborative view on the question providing further opportunity to probe which also added additional value to the overall topic.

The table below illustrates the eight main identifiers of distressed funders to both the distressed and Business Rescue Industry.

Table 5: Identification of Distressed Funders

Rank	Construct	Frequency
1	Existing Banks already involved with the company	13
2	Private Equity funds operating as niche Distressed Investors	9
3	Current Shareholders of the company	5
4	Wealthy individuals looking to buy cheap assets	4
5	Development Banks	3
5	Third party acquirers looking to buyout companies	3

In answering question one of the interview schedule, all respondents identified that the primary source of local distressed funders or lenders most likely to extend funds are the ones already involved with the company and those that hold the security on the assets of the company.

Looking at the highest three ranking constructs of table four it shows that all 13 participants strongly agreed that the encumbered Banks, already involved in the distressed process of the company, will most likely be the main source of funding for any future additional funds (if any). One of the participants who confirmed this statement, stated that the lender already holding the security will most likely be the source of supply commenting that it is the *"existing lender that is already exposed and holds the security"* (BRP04).

Some participants however elaborated that it does not automatically guarantee distressed companies, especially those already in the formal process of being under Business Rescue, with definite additional funds from these banks. Most of the time these banks already hold all security available and due to the financial loses that these lenders might have incurred before, they are hesitant to extend additional funds.

Many of the participants held a similar point of view on this matter with one participant asserting that *"you are not finding many of the banks putting up further funding once they have already made a loss, pre-commencement, so they are not going to put up more money"* (BRP03). Conversely another participant commented that *"what we are finding is that the banks who might already be involved might provide some post commencement funding possibly to help them realize their security or to keep the business going maybe long enough to find a buyer"* (BRP07).

The second highest ranking of external distressed funders that were identified was a form of specialized Private Equity players operating in South Africa. These specialized Private equity players are set up as niche distressed investors. One respondent commented that these are a specialized pool of distressed funders and that *"there are some what I call sort of traditional offshoots of private equity firms here that are looking at distressed funding as well"* (BRP06).

The challenges however with these niche distressed investors is that although they were highly ranked, respondents who identified them pointed out that the challenge firstly, is that there appears to be only a limited number of these players in the market and second they only currently deal in smaller distressed transaction deals. This was confirmed by majority of the participants who were aware of these niche distressed investors with one participant commenting *"there are a very limited number of them so they are distressed funds but I think there are literally like one or two of them*" (FIN05).

The same respondent further elaborated that the other challenge with these niche distressed investors is that their current focus is on smaller deals with maximum value of only up to R50 million. One participant commented that these investors are *"scratching the surface, they are I think maxing out on R50 million per investment"* (BRP04). With larger asset deals such as if a mining company is entering distress, these resource deposits will require far larger amounts of funding and R50 million will not be able to sustain them. The participant further commented that *"if you look at the debt universe of the businesses that I have been involved with, R50 million would get swallowed up in 15 days of just working capital. so you know to do it in a big way you are going to need numbers, big numbers, and there is no such thing"* (BRP04).

The third highest ranking that came out from respondents is that the shareholders of these distressed companies are also usually a main source of distressed fund supply if no additional funds can be sourced from either the existing banks or some other form of external distressed funder. One respondent who commented on this said that you *"might find the shareholders putting in money to try and save the company or to prop it up while they might be selling it off to someone else"* (BRP03), and also being confirmed by another respondent who commented that *"most of the times your secured creditors being the commercial banks in most instances, or current shareholders"* (BRP02).

Other participants further identified wealthy individuals as being potential sources of distressed investors or buyers. One respondent however mentioned that although they are often being approached by wealthy individuals, the level at which these individuals expecting to pick up discounted assets are at very low figures and that the shareholders and creditors would rather opt for a normal liquidation. The respondent commented that *“they are generally unrealistic, they assume that they will pick up something for nothing; they will pay us 5c in the Rand for us whereas maybe the debt is worth on a liquidation basis 50c in the Rand so why would we take another 45c hit”* (FIN02).

The relevance of question one was to explore and establish who the industry experts interviewed currently view as being the available sources of funds for distressed companies. This was done in order to establish who distressed companies under Business Rescue can approach and utilize as distressed funders. Basis on the analysis of pool of funders identified there appears to be a pattern of limitation on the availability of distressed funders. This will however be discussed in greater detail in the findings of the following question.

5.4.1.2 Limitations of distressed funding for companies under Business Rescue

The second interview question requested interviewee participants to state whether or not they believed that distressed funding for companies under Business Rescue was indeed limited and it also gave each participant the opportunity to further elaborate on the reasons for their answers.

This question also allowed participants to discuss what factors they believed influence funding decisions for distressed companies under Business Rescue. As question two was seen by the researcher as the crux for Proposition one, some time was spent on each of the interviewees answers in order to analyse and establish where the greatest gap is in the market currently in regard to local distressed funding. Table five below provides the responses to this question.

Table 6: Results summary: Limited availability of distressed funds

Rank	Construct	Frequency
1	Yes	13
2	No	0

Based on table five, it is clear that respondents agree that access to local distressed funding to assist companies under Business Rescue is limited, with some respondents asserting that the level of funding is severely limited. One participant expressed that it *“has proven availability of PCF is extremely limited”* (BRP07).

There was however a feeling shared by some participants that although distressed funding is limited it does not necessarily mean it is inaccessible, but that it rather depends on the nature of the business, on a case-by-case basis and also leading back to the severity of distress. One participant affirmed, commenting that *"funding is there, but it has got to be a takeout or a good success chance of working"* (FIN02). Another respondent further agreed and stated that *"it depends on the nature of the business or the situation. So if there is a prospect of a rescue then I think there is funding"* (FIN06). The following table presents the key factors participants highlighted that they believe impacts the decision of funding towards companies under Business Rescue.

Table 7: Factors impacting funding towards companies under Business Rescue

Rank	Construct	Frequency
1	Maturity of the Business Rescue industry	6
2	Lack of audited accounting information	5
2	Clarity on Act regarding Rankings	5
2	Lack of trust in Business Rescue Practitioner	5
3	Limited local distressed players	3
3	Lack of additional security	3
4	Lack of confidence in Business Rescue system	2
4	Lack of expected return	2
4	Size of the Market is too small	2
4	Uncertainty in SA Market conditions	2

Maturity of the Business Rescue industry was found to be the highest ranked factor that was mentioned most amongst the participants, with lack of audited accounting information, clarity on Act regarding rankings and lack of trust in the Business Rescue practitioner jointly ranked in second place, with limited distressed players and lack of additional security ranked in third.

Respondents who commented on this said that due to the relative newness of the Business Rescue industry in South Africa, most funders, especially external funders, are hesitant to invest or extend funds into a company under the formal process of Business Rescue as there is too much uncertainty still in the Act and not enough track record of success.

Respondents commented that because of the newness of the industry, there is no real proven track record of success to give investors or funders enough comfort and confidence in the system to either invest in or extend funds. This is due to the fact that no certainty can be given that at least some form of return can be guaranteed should the Business Rescue process not be successful in the end. One participant commented and said that *"the market is still relatively young, you know the new Act came in, in 2011 it started, so there hasn't been much of a track record"* (BRP05). Another respondent further commented that *"yes risk comes with reward but I think at the moment because of the fact that it is a very new industry that risk component is just too much at the moment"* (BRP02).

The second highest factor respondents identified as being an influencer that will impact the availability of distressed funding, was the lack of clarity of the Act regarding the rankings on post-commencement finance or any additional funds coming in from external sources. Based on the lack of clarity on rankings, it leads to further uncertainty to potential distressed investors, leaving them more reluctant to extend or invest funds into distressed companies under Business Rescue. One respondent commented that one of the issues being "*clarity of the Act, so the ranking of PCF we understand is defined in the Act but the thing is you can't, you won't find very easily somebody to come in with PCF if there isn't a hook for them into the business"* (BRP04).

Five interviewees commented that other reasons why distressed funding for these companies are limited is that there appears to be a lack of trust in the Business Rescue practitioner appointed. One respondent who specifically commented on this said that if there is *"no confidence in the practitioner or the business case then there is no funding"* (FIN06), whilst another participant responded that funding will be considered, *"only if they are comfortable with the practitioner that is in there will they even consider"* (BRP05).

A further factor that arose five times among participants, was that the lack of proper and audited financial accounting records. This was found by many respondents to be the downfall for many distressed companies (whether in a formal process or not) on their inability to attract funds. One respondent who confirmed on this, said directly that it is usually the initial issue *"firstly a lack of financial information"* (BRP02) and further commented that *"in South Africa companies in distress tend to lose track, or don't concentrate on their financials so there is a lack of proper financial information to be able to consider your position to fund the opportunity"* (BRP02). Another two respondents further elaborated and exclaimed on the importance of the financial records. One respondent commented that in order to be considered for funding *"you have got to have good financials, you have got to have been audited"* (BRP03), while the other commented that *"if you don't have proper financial records at your disposal that can* *back-up your profitability and your cash flow generation, then you've got nothing to demonstrate why you qualify for funding"* (FIN04).

During discussions it was noted that there are only a limited number of local industry players currently operating in the distressed market and one of the main contributing factors to this is the lack of skills available in the distressed arena. One respondent commented that *"there are a few guys that say they are doing it and then it becomes all too difficult. So I think there is a skillset and an education space that is also probably not large enough yet"* (BRP06). The respondent elaborated further and commented that *"it is limited because it is young and there just aren't that many players."* (BRP06). In order for a distressed company to further gain access to funds it requires free assets to be available that can serve as security. One responded stated that it *"usually requires some form of security and the fact of the matter is that when you get to a distressed company there may not be any assets which are available which are unencumbered"* (BRP07).

5.4.1.3 Factors that will impact and attract more local funding for companies under Business Rescue

The third interview question for proposition one requested participants to express their view on what they believe should be done by various distressed industry players in order to assist in attracting more local funding that will help companies who are in distress.

The relevance of this question was to identify and establish where a gap and an opportunity is that is available to be exploited to the benefits of all the stakeholders involved of the distressed company, especially those under Business Rescue. Results for this question is presented in table seven:

Table 8: Opportunities that will assist in attracting more local distressed funding

Rank	Construct	Frequency
1	Earlier identification & initiation	6
2	Clarity on Act regarding rankings	5
3	Regulation on Business Rescue practitioners	4
4	Audited accounting information	2
4	Creation of specialized commercial courts	2
4	Sell the Business Rescue process & market the successes	2
5	Build strong relationships with suppliers	1
5	Streamline the Business Rescue process	1

Looking at the three highest rankings and analysis of the data collected, majority participants felt very strongly on three factors, some that were identified in the previous question as well, which was that firstly companies need to start with earlier identification of distress and initiate something sooner. This was suggested that not just only when deciding to be placed in a formal process such as Business Rescue, but even in the earlier stages to try and do an informal turnaround to avoid being placed in Business Rescue as this will give a company more time and better chance of survival.

One respondent commented that *"as soon as you have got a bit more runway there is huge opportunity for people to do things"* (FIN06). Another respondent further elaborated on the formal process of Business Rescue, that majority of companies who are in such a level of distress and enters the formal process of Business Rescue are already near liquidation. The respondent commented that *"the opportunity to present funding at the moment truthfully I think that most of the cases are not good investment opportunities, most of them are we call it "dead on arrivals"; they actually should be in liquidation and they are trying to use business rescue for whatever reason to stave off the inevitable"* (BRP01). This observation confirms the point of view that more opportunities will be available if financial distress in a company can be identified and initiated sooner.

It was also of value to note how the respondent further mentioned that the distressed identification process of a company should not just solely be the responsibility of the company shareholders, but also that of other industry players involved with the company. The participant commented that *"doing something sooner; that is, I think the responsibility of numerous players in industry"* (BRP01).

Five other participants held a similar view and expressed that key factors that will attract more local distressed investors or funders is to start identifying and admitting distress earlier. This should be done by initiating an informal turnaround even before entering a formal process, as Business Rescue is seen as entering the final stage before being placed into liquidation. This makes it therefore more difficult for companies when they are under Business Rescue, as there is little to none assets left to serve as security.

One participant expressed this as being one of the most fundamental things commenting that *"being realistic and raising that red flag early, that is the most important thing"* (FIN06). Another respondent further commented that *"the fact that it is left too late there is very little alternatives, so putting your money in at a late stage is quite a gamble"* (BRP05).

The second and third highest ranking respondents felt was an influencing factor, specifically focussing on Business Rescue, was that there is still a lot uncertainty in the Business Rescue Act. This factor was discussed in question regarding the rankings of additional distressed funding or post-commencement finance. Respondents were of the view that distressed investors will be reluctant to invest if they are unsure how their investment will be treated and whether or not a return will be received should the Business Rescue attempt not be successful. One respondent asserted that Legislatures *"have to review the Act and give clarity on how PCF will actually be treated without any ambiguity, because money, however risky the money industry is in terms of distressed investment, money people are conservative by nature"* (BRP04).

The third highly ranked factor that was viewed as important amongst respondents is for Business Rescue practitioners to be reputable. One participant who held a strong point of view on this commented that *"when there is a recognition that it works and that you have got competent business rescue practitioners, you are going to see more interest in doing deals through our system, through our business rescue system"* (BRP03).

Another respondent also confirmed and commented that the *"most important bit is to get comfort from who the appointed practitioners are. You speak to the banks trust in the practitioner, comfort in the way that he would deal with a specific assignment is of the utmost importance*" (BRP02).

What was further interesting to note was how one respondent commented that selling the Business Rescue process and marketing its successes will create more awareness of the system, as not many investors (especially foreign investors) and creditors, are aware of it.

One respondent commented *"I think the business rescue practitioners are too disparate at the moment in respect of going out into the market and selling the opportunity"* (BRP03), and also further commented that *"it is about confidence in our system. Look at the track record of our successful business rescues; I think that is the selling point"* (BRP03).

5.4.1.4 Future Incentives and opportunities for Companies

The final interview question of the first proposition provided interviewees the opportunity to express what future initiatives they believe will be seen arising in the future that might assist distressed companies, both in a formal process such as Business Rescue and in an informal process. The table below presents the Incentives that participants identified:

Table 9: Future initiatives for distressed companies

Rank	Construct	Frequency
1	Tax incentive	4
2	Entrance to added funders	3
3	Debtor in Possession	1
3	Adjustments to the Act to make it more 'user-friendly'	1
3	Objective external plan	1
3	Protection against creditors (after Business Rescue period)	1

The two highest ranked initiatives respondents felt would be established in the nearby future were Tax incentives and the entrance of new funders or investors being allowed to enter and trade in the South African distressed market. Four participants commented that a form of tax relief as an incentive will be of great value, while three other participants felt creating opportunities to allow new and additional funders to enter the distressed process will be of value.

One participant commented specifically on that if a number or percentage of jobs can be preserved that tax savings should be granted. The respondent commented *"initiatives around the number of jobs saved and if that could be linked to something like a tax break, well that will be even better. So for example you have gone through the business rescue process and you've saved X number of jobs, perhaps there is leniency in your first year of post business rescue"* (FIN04).

The analysis of the data collected on the Tax relief, shows that this will provide companies with further breathing space after exiting Business Rescue in order to get it back to a sustainable business again. This will ultimately not only be beneficial for the immediate stakeholders of the distressed company, but also the South African economy due to increased productivity because of the preservation of jobs.

Another initiative identified by majority participants was the opportunity to allow new funders or trade investors to enter the distressed company. One respondent commented on perhaps an initiative is one of distressed debt trading that *"I think one of the opportunities here is probably some sort of secondary debt market"* (BRP04),

Another four individual initiatives that respondents identified, all with a ranking of one, were protection against creditors after exiting the Business Rescue process (which could also potentially be connected with the possible tax relief earlier discussed), using a form of Debtor-in-Position approach such as in US rescue regime, an objective external

Business Rescue plan, as well as suggestions made to adjust the Business Rescue Act to make it more 'user-friendly'.

Participants who commented on these four initiatives responded as follows:

- *"bring a plan that is objective, and what I mean by that is it is unhelpful to try and expect the market to fund management's plan when management is in distress. An objective view of a business from a boutique house, from a PWC or from a whatever which says here is the true state of affairs of this business"* (FIN06).
- *"massive opportunity at the moment for debtor in possession financing with is your distressed funds; there are one or two that I am aware of, huge huge opportunity in the market"* (FIN04).
- *"I would say the day that business rescue is finished maybe you need a six-month period during which time it's hands off amongst the creditors, have some kind of reign or something, then maybe that also needs to be written into your business rescue plan that you all subscribe to and agree to upfront"* (FIN03).
- *"Guys just need to understand the process. It is about talking about education, about understanding who the players are on the market. It's all about education; it's about talking about rescue, it's about these guys attending seminars, forums, discussion forums"* (BRP03).

5.5 Conclusion to Research Proposition One

Majority of the interviewees expressed that in order to successfully gain access to local distressed funding, a main determining factor that serves as an element on whether or not these distressed companies will qualify for distressed funds is their availability of free and unencumbered assets. Interviewees further explained that unfortunately companies who have already entered the formal process of Business Rescue are often already in too deep a level of distress, as Business Rescue is viewed as the final stage before liquidation. Most of the times these distressed companies do not have any unencumbered assets available anymore, which therefore makes the possibility to gain access to any new funds little to none. Interviewees concluded that currently the only real available sources of distressed funders will either be the existing banks already involved with the company, the shareholders of these companies and some internal funds or support might come from current suppliers and customers. Reference was also made to niche local distressed investors, however there were only talks about of one or two of them available and they are also only operating on small scale.

The evidence of the findings therefore shows that in order for a distressed company, especially those under Business Rescue, to be granted access to further funding a number of prerequisites need to be met. The findings further present that only a limited number of both distressed funders and investors are currently available in the market. In conclusion and based on the data analysed, the findings therefore support Proposition one that local funding for distressed companies is indeed limited.

5.6 Results: Research Proposition Two - Foreign investors are increasingly becoming aware of valuable distressed assets available in South Africa

5.6.1 Introduction and Overall Results

The aim of proposition two was to determine if foreign investors are increasingly becoming aware of valuable distressed assets and companies in the South African Business Rescue and distressed market. The purpose and relevance for this proposition was to identify if there is indeed currently an increased awareness and interest coming from foreign investors. If confirmed, local distressed industry players can utilize this as an opportunity to rather look at attracting foreign investors to invest and buyout these companies as opposed to local players, due to the limited availability of local distressed funds as mentioned in existing literature.

Four interview questions were asked pertaining to Proposition two, as well as a few additional open-ended questions depending on the flow and outcome of some of the interviewee answers. Although some of the questions may have solicited self-explanatory outcomes (due the current market conditions of South Africa) the researcher believed that these questions were necessary in order to draw and analyse any similarities or contrasting views from the various respondents that would contribute to the value add of the overall research project.

The interview questions were designed around foreign investors' appetite for the South African distressed industry, the types of foreign investors, the countries they are from and which industries they would most likely target, as well as what the opportunities are available and how this will impact the overall South African economy.

5.6.1.1 Foreign investors increased interest in the South African distressed industry

The first interview question pertaining to research proposition two requested respondents to express their point of view on whether or not they believed foreign investors have turned their sights to the South African distressed market. The question further provided interviewees the opportunity to elaborate on the reasons for their thinking. The outcome regarding the initial question is found in Table 9 below:

Table 10: Increased interest from Foreign Investors

Rank	Construct	Frequency
1	Yes	7
2	No	6

Based on the aforementioned table and observations during the interviews, the view amongst respondents regarding increased awareness and interest from foreign investors into the South African distressed market were fairly balanced. The majority of respondents were however of the view that there is definitely an increased awareness among foreign investors towards the South African distressed market. Seven participants commented that there is indeed an increased appetite and awareness being observed from foreign investors with one respondent exclaiming on this point *"are they aware of and starting to look and wake up to distressed investment opportunities in South Africa – definitely"* (BRP06).

While the remaining six respondents felt foreign investors have not really turned their sights to the South African distressed market, it was interesting to note how one respondent elaborated and held the view of why he believes foreign investors would be interested; *"I can see why they would want to because they chase yield and we've got the potential in certain industries to make much better returns than your global averages"* (FIN05).

Another respondent however commented on foreign investors interest and said *"I think they did and they have turned their sights away, simple. So I was getting a fair amount of inbounds but I would say in the last 12 to 18 months, Africa emerging markets, SA are not on the radar*" (FIN06).

Increased interest from foreign investors towards South African distressed market

The table below provides the reasons for why the respondents felt there was an increased appetite from foreign investors in the South African distressed market.

Table 11: Increase into the South African distressed market

Rank	Construct	Frequency
1	Industry players looking for large resource deposits and retail assets	5
2	Distressed Investors looking for cheap assets	2
3	Saturation of developed markets	1

The highest ranked factor mentioned among the seven respondents was that South Africa possesses large mineral and resource deposits and also has large retail assets available that are attractive to foreign investors, especially industry players looking to either gain access to a specific industry sector in South Africa or to get a footprint into the market.

One respondent commented that *"a lot of the mining assets are attractive simply because they are big assets and ultimately what you are seeing is foreign investors take a long term view on some of these things"* (BRP06). A second participant also commented *"I think yes and the single biggest area is it seems to be coming from China and in the mining industry"* (BRP04), while another respondent commented *"from experience, and you are looking at the larger space, I mean if it is small batters they are not there, but if it is the larger space matters, mining, resources definitely, retail definitely"* (BRP02).

The second and third highest ranking factor respondents felt as a reason for increased appetite was that foreign investors are looking for cheap distressed assets and because of the saturation of the more developed markets these types of investors have now started turning their sights now to a more emerging market such as South Africa. One respondent who commented on this said *"I think overseas markets are saturated, emerging markets are always looked at"* (BRP03).

No increased interest from foreign investors towards South African distressed market

The table below presents the reasons why six respondents felt there is no real increased appetite seen towards the South African distressed market.

Table 12: Reasons for no increased interest

Rank	Construct	Frequency
1	Sovereign Risk	5
2	Size of the market too small	2
3	Lack of awareness	1

The remaining six respondents who felt there has not really been any increased interest from foreign investors commented that the main reason for this was due to the sovereign risk of South Africa. One respondent commented *"some of the hesitancy also stems from a view on sovereign risk, you know the country risk. the country risk, the political uncertainty, you know our credit downgrade, all of those things add to it and they say you know if the environment is so risky, and then we still have to go and look at a small distressed business."* (BRP01)

The second factor respondents felt strongly about is the size of the South African distressed market which is too small for the larger foreign Private Equity investors to get involved in. It takes just as much effort to do a small investment deal, perhaps more, compared to a large deal for foreign investors. The respondent commented that *"in private equity it costs as much to do a small deal as a big deal in effort, time, energy and resources, people etc. which is true to an extent. So it is about return on investment or return on effort"* (BRP01)

The third factor one respondent mentioned was the lack of awareness from foreign investors regarding the Business Rescue process and distressed assets available. The interviewee commented *"I don't necessarily agree that foreign companies are aware of distressed debt bargains here"* (FIN02)

What was interesting to note during the discussions of this proposition, was the fact that two respondents mentioned that more aggressive interest is being noticed from local investors rather than from foreign investors.

The respondents commented that they are not really foreign investors attracted to the South African distressed market, but they are however seeing more local investors becoming more aggressive in the market setting up funds that acquire distressed assets. One respondent commented *"I don't think I have seen an increase in international appetite, it's pretty much the same appetite, but I've seen domestic funds becoming more aggressive in acquiring distressed assets"* (FIN01), while another respondent added the reason that *"South African companies probably have deeper knowledge in terms of what the regulatory environments look like"* (BRP04).

This was also an earlier point of discussion during proposition one, where respondents commented that pockets of local distressed funders are becoming more available. The only challenge that remains is that these types of players are however still very limited and only focusses on smaller investments of up to R50 million.

This therefore provides further evidence that there is currently a gap in the local distressed market for funding as well as an opportunity for more investors, either local or foreign, to start look at establishing more such local distressed investment funds.

This was confirmed by the respondent who commented that "*there are no local distressed funds of any kind of meaningful profile that I am aware of that would come into a business rescue to fund PCF. That is just an empty hole. It is a huge opportunity, massive opportunity*" (BRP04).

5.6.1.2 Country and types of Foreign Investors and industries in SA most likely to target

The second interview question of this proposition requested participants to share their views on which countries they feel these interested foreign investors will mostly be from, what types of investors they are and which South African industries they feel these investors will target.

This question was deemed as relevant in order to determine if there are any patterns of similarities on the kind of foreign investors interested in the South African distressed market. The researcher believes this will assist distressed industry players to know which future foreign market and players to mostly target.

This will further assist in marketing both the South African distress market and Business Rescue process better by creating more awareness that might develop a greater appetite among foreign investors and attracting them to the South African distressed market.

The table below presents the results of the countries the respondents felt will most likely be interested in the South African distressed market:

Table 13: Country of interested Foreign Investors

Rank	Construct	Frequency
1	China	9
2	America	5
3	Europe	4
3	UK	4
4	India	2
5	Australia	1
5	Russia	1

Based on the data collected, the four highest ranked countries that respondents believed most interested in where foreign investment most interest will come from were China, America, Europe and the United Kingdom. Three other countries participants commented on were India, Australia and Russia. On the top three highest ranking countries one respondent commented that the increased interest is from *"sovereigns that have already displayed energy and enthusiasm for investing in Africa, specifically China"* (FIN02). Another respondent further commented that *"it tends to be from your more developed economies being the States, Europe, China"* (FIN04), while another respondent commented on the UK *"London in a big way, London are interested and consistently looking at opportunities"* (BRP03).

Interesting to note was the response from one interviewee who expressed that the Australian debt fund market is starting to show interest towards the South African distressed debt market. One respondent commented on this and said *"we had Australian companies coming here distressed debt funders, looking at our markets saying should we set up in South Africa, let's set up a distressed fund, we see this as a new opportunity, emerging markets, fantastic, most of the markets in Europe, the UK and the US are saturated let's go South Africa"* (BRP03). The table below presents the results of the Industries respondents felt will most likely be interested in the South African distressed market:

Table 14: Industries of interest to Foreign Investors

Rank	Construct	Frequency
1	Resources	10
2	Retail	6
3	Agriculture	3
3	Any distressed Industry	3
4	Wine Industry	1

Upon collection of data it was clearly evident that the industries that foreign investors are interested in according to the respondents, was resources, retail and agriculture. Three respondents were further also of the view that for many foreign investors they will be interested in any distressed industry just as long as there is value in it and money to be made, they will invest. One respondent who commented on this said *"Mining is the obvious one, so I would say mining is the biggest" "we had a lot of interest in our retail sector*" (FIN05), while another respondent commented *"I think agriculture to a certain extent is also attractive"* (BRP06)

Some of the industries mentioned that were in the minority was construction, financial services, property, tourism and an interesting industry mentioned was the South African wine industry. The respondent commented on the wine industry which is attractive, although difficult at the moment, said that *"the wine industry is very difficult at the moment which has generally been an attractive thing"* (BRP06).

The table below presents the results of the types of foreign investors respondents felt will most likely be interested in the South African distressed market:

Table 15: Type of Foreign Investors interested

Rank	Construct	Frequency
1	Private Equity, Activist Hedge funds & Vulture Funds	7
1	Industry Players	6
3	Venture Capital	2
3	Wealthy Individuals	2

During discussions it was observed that it is either foreign Private equity funds, Activists hedge funds or Vulture funds that were the most likely foreign investor types who are interested in the South African distressed market to get great value from deep discounted assets.

The second highest ranking investor, which was very close to the distressed debt investors, was the industry players who are purely looking to either get a footprint into the South African market in a specific sector or to gain access to large deposits or assets that are available at deep discounted prices.

This was followed by Venture capital players as well as some wealthy individuals who are just 'shopping' around to see if they can find some valuable investment opportunities.

Distressed Debt investors

Some of the distressed debt investors that were mentioned was Private Equity funds, Activist hedge funds and Vulture funds. One respondent who confirmed this commented *"a lot of these traditional institutions, funders, hedge funds, private equity, venture capital, hybrid, Mezzanine funders for example, they are starting to develop emerging or in fact have developed emerging market funds which specifically have X number of you know funds allocated to emerging market investment"* (BRP06).

Industry Players

Respondents who mentioned on industry players as a type of foreign investor said that some industry players actually come not just because it is in distress and perhaps available at deep discounted prices, but rather purely because a strategic move. One respondent commented *"we had a lot of interest from external foreign parties looking and asking us do we have distressed… and they did ask do we have distressed debt but that was a sector thing"* (FIN03), while another respondent further elaborated that is an *"extension of an entity and investment strategy in a sector that now moves from going-concern to damaged-concern"* (FIN02). Another respondent who commented on strategy stated that a *"larger competitor or a player in that market has been the one who has looked at it and thought there is an opportunity for me to take advantage of here"* (FIN04).

5.6.1.3 Attracting more investors to buyout companies under Business Rescue

The third interview question asked participants to express their view on what they think should be done in order to attract more investors both local and foreign to buyout distressed companies, especially those under Business Rescue.

The table below presents the findings and indicates that a big contributing factor that will assist in attracting more investors was to market the process and publicise the successes which will cultivate and create a greater sense of confidence among investors into the system.

This question further shows the relevance towards this proposition and the overall project, as there are shortcomings in the Business Rescue Act, which shows the alignment and consistency between the various propositions.

Table 16: Attracting more buy-in from foreign investors into the Business Rescue process

Rank	Construct	Frequency
1	Publicize available distressed assets, publicize past successes and Market the process	5
2	Proper industry regulation	4
3	Build global consolidated networks	3
4	Create debt trading mechanism	2

The three highest ranked factors interviewees identified they felt would assist in attracting more foreign investors to buyout distressed companies were:

Publicize successes and market the process

Interviewees who commented on this said that foreign investors are still very unaware of how the Business Rescue process works and this creates further uncertainty due to the relative newness of the Act and whether or not it is successful. Based on this, respondents feel that in order to attract the 'buy-in' of foreign investors into the confidence of buying out a company in Business Rescue it is important to go out and market the process and to publicise the successes of past Business Rescue cases. This will in turn create greater awareness and confidence among investors.

One respondent who was involved in a previous distressed situation and in the end managed to successfully attract investors, commented that *"we used our network and we marketed it, we talked to the bond holders, we put feelers out and the reason was twofold"* (BRP06). Another respondent further elaborated and said that *"I think what we should be doing is publicizing our successes and I wouldn't limit it just to business rescue"* (FIN06).

Proper Industry regulation

The second highest ranking factor mentioned among interviewees was proper industry regulation of the Business Rescue process. This included factors mentioned such as having a proper Business Rescue plan in place, speed of the process and ease of doing business, as well as having proper Business Rescue practitioners. One respondent who commented on the ease of doing business stated that *"you have got to make doing business here user friendly so that is one thing that jumps to mind that is very topical"* (BRP05).

Another participant however further elaborated on the importance of the Business Rescue plan and said that this will impact the investors' confidence in the system, commenting that *"it is also the quality of the business rescue plan"* (FIN03). Another crucial point noted was two respondents who commented on the importance of a quality Business Rescue practitioner, with one commenting that if *"you have got competent business rescue practitioners and you are going to see more interest in doing deals through our system"* (BRP03).

Build Global consolidated networks

Another key factor the respondents felt would assist in attracting more foreign investors was to build global networks, as this will create further awareness to foreign investors regarding the distressed assets available in South Africa, especially those companies who are under Business Rescue. One respondent commented on the importance of this and said that *"close relationship that the BRP has with offshore funds of a similar nature, so in other words the one-man show sitting in one little office is probably not going to have access to or knowledge of the bigger funds as opposed to let's say the blue-chip guys like for example the big auditing firms are international and have far more access to the markets"* (FIN02).

Another respondent also further elaborated and commented that building consolidated global distressed networks is a great opportunity. The respondent commented *"there is a body that is set up that can deliver that, broker those relationships, so when we spoke about opportunities that might be an opportunity to look at. So almost like consolidate all the various overseas funding that is available and make sure that you put the right prospects and opportunities together"* (FIN04).

Create debt trading mechanism

The last factor mentioned by two respondents was to create a form of debt trading mechanism, as this is currently something does not really exist in South Africa. One of the respondents who commented on this said that *"our secondary debt market which doesn't exist, but if the examples of the US and the UK could be replicated here where there is active trading in the debt of companies in distress"* (FIN05). The respondent further elaborated on this and said that the advantage is that *"if you are able to buy up debt before a business rescue process and you have the majority vote, so you are again going to control it to me that is a basis on which somebody could buy into a process for example"* (FIN05).

The other respondent who commented on this said that *"I think one of the opportunities here is probably some sort of secondary debt market"* (BRP06), and further elaborated on the advantage of being able to trade quickly commenting that *"once you have a market* *mechanism that allows you to trade debt a bit more and specifically it works very well in the distressed market because you can trade it quite quickly"* (BRP06).

5.6.1.4 Impact of Foreign investor buyouts on South African economy and distressed industry

The final interview question pertaining to proposition two, requested participants to provide their views on how they feel a buyout of distressed companies, either under Business Rescue or not, by foreign investors will impact the South African economy as well as the local distressed industry players and stakeholders involved. Table 16 below present the findings of the results regarding the impact interviewee felt buyouts by foreign investors will have on the overall South African economy, as well as the local distressed industry and stakeholders involved.

Table 17: Impact of buyouts by foreign investors

Rank	Construct	Frequency
1	Increases Investment into SA	3
1	New Knowledge & Skills	3
1	Preserves Jobs	3
2	Boosts confidence in the BR framework	2
3	Adds Competition	1
3	Improves policies	1

During the discussions, observations made that majority of the respondents felt that buyouts of distressed companies by foreign investors will have an overall positive impact on the South African economy.

Positive impacts that came up during discussions include:

- Increased investment coming into South Africa
  - (BRP04) *"you are bringing in fresh money into the economy from outside which is always a good thing"*
- New added knowledge and skills coming into the local market
  - (FIN05) *"transfer of knowledge and skills because obviously if there is a strategic investor they must have a view on that specific company therefore they will have an agenda in terms of steering the performance of that company*

- (BRP02) *"they mechanize processes very well. So they have got a way and knack of bringing in machines to streamline processes and obviously to add margins. Why, because they have done it overseas and they know what to do"*

- Perseverance of jobs and therefore increasing productivity and economic growth
  - (FIN04) *"jobs saved, so that has to have a positive impact on the country and the ripple effects that stem from that"*

- Will boost confidence in the Business Rescue framework
  - (FIN01) *"quite significant in the sense that if more and more businesses go into business rescue, and there is proven track record that it is successful and there are also foreign guys that invest, it will provide comfort to a lot of other foreign guys to say well it has worked for "John" why won't it work for "Jill".* So I think it just boosts confidence to the framework

- Adds new competition to the market, being beneficial for distressed companies
  - (FIN03) *"But I do think it adds good competition, it is cheap money, it is foreign investment, it is all those good things; if it is saving the industry or the business that is not a bad thing, so good"*

- Improves and drives policies
  - (BRP04) *"Know-how and grey matter in big business in South Africa will drive policy. guys are going to start driving more economically focused streamline policies from outside"*

Concerns on negative impacts:

Three respondents did however raise concerns that although foreign investment can be viewed as a good thing, there needs to be a balance and also ensure that the reasons for "injecting" cash into the South African system are done for the right reasons. One respondent who commented on very valuable point said that *"I don't think it is necessarily negative because I think we do need foreign investment, it's all about the balance. If they are taking us out completely and excluding the locals, longer term maybe that is not a particular healthy thing for the economy to be in"* (FIN03).

A point of concern one of the respondents explicitly mentioned was the extraction of cash being taken completely out of the South African system and pumped into foreign countries which has a negative effect on the South African economy. The respondent commented on this and said that *"you may get the initial cash injection but then over the life of the thing you have got dividends going out every year assuming it is successful. That dividend leakage is actually going to be bad for the country because all the cash is then leaving"* (BRP05).

5.7 Conclusion to Research Proposition Two

It is evident from the results that there is indeed increased awareness from foreign investors. Some respondents even further alluded to the fact that every year there seems to be more and more increased appetite from foreign investors. The challenge however is that although definite increased awareness is seen from foreign investors, the successful conclusion of such foreign deals into the South African distressed market might serve as a future research proposition that needs to be tested.

Based on the results of the data collected, it can therefore be concluded that the data collected supports Proposition Two in that there is indeed an increased awareness from foreign investors into the South African distressed market.

5.8 Results: Research Proposition Three - The discounted value at which distressed companies in South Africa can be bought at increases the appeal and attractiveness to foreign investors

5.8.1 Introduction and Overall Results

The third proposition focused on the discounted value of distressed companies and how respondents feel this will impact foreign investors' decision when it comes to buyouts of distressed companies in South Africa. In general, three interview questions were asked pertaining to proposition three. Upon collection of data it was noted that the majority of interviewees feel that the discounted value at which distressed companies in South Africa can be bought at will definitely increase the appeal and attractiveness to foreign investors.

Aside from the discounted value of the distressed companies, respondents were further asked to express their view on what other factors, apart from the discounted value, will make a distressed company for foreign investors' more attractive in South Africa. The proposition concluded where respondents were asked to express their view of how the overall value of distressed company under Business Rescue will be determined.

5.8.1.1 Impact of discounted value on foreign investors

Interview question one requested participants to express whether or not they feel the discounted value of distressed companies impacts the attractiveness to foreign investors or not and to give reasons for their responses. The purpose of this question was to establish if interviewees indeed felt the discounted value impacts the final decision on whether or not foreign investors should buyout a company in distress in South Africa.

The table below presents the results on the findings on whether participants felt the discounted value impacts foreign investors' decision on whether or not to invest and increase the attractiveness for foreign investors to the South African distressed market.

Table 18: Discounted value will attract foreign investors to local distressed market

Rank	Construct	Frequency
1	Yes	10
2	No	3

Of the 13 interviewees, 10 confirmed that they definitely feel the discounted value of distressed companies will impact investment decision and lead to attracting more foreign investors to the South African distressed market. Three participants were however of the view that the discounted value will not make any substantial difference for foreign investors when considering to look at buying out distressed companies in an emerging market such as South Africa.

The 10 interviewees who confirmed yes, said it is mainly due to the amount of value foreign investors can extract from such a distressed investment, especially from companies under Business Rescue, as foreign investors might be able to pick these distressed companies up at deep discounted prices than a normal distressed company before entering Business Rescue.

One respondent who exclaimed on the discounted value stated that *"usually very attractive because you are benchmarking it against a liquidation scenario. So the opportunity to purchase assets at a cheap discount is very real in business rescue"* (FIN04). Another respondent who also held a very strong view on the discounted value, commented that *"the assumption of rehab liabilities and stuff like that, have a huge impact on what comes out at the end of the day. It is a massive leverage. So you are going to pick it up for nothing and then try and make something out of it. Especially in down markets, down markets are just kill value, absolutely"* (BRP04).

Of the three interviewees who commented no, two of them commented they believe the attraction for foreign investors to the South African distressed is more based on strategy rather than just purely picking up cheap assets. One respondent commented that *"there is a strategic play that will provide to value enhancement for them, they are willing for obvious reasons to put more or pay more for the asset*" (BRP06).

The third respondent conversely held the view that there is just too much sovereign risk involved for foreign investors and that it actually will be a strange phenomenon to see any foreign investor come in, where a local investor has already declined such an opportunity. The respondent commented that *"there may be a weird one in 100 cases where the South Africans don't want to and it's suddenly attractive for offshore, but just for the simple economic risk return factors I have put out now, I would find it surprising where a South African investor on a like for like basis turned up its nose and an American or an offshore investor came in"* (FIN02).

5.8.1.2 Additional factors affecting attractiveness for Foreign Investors

The second interview question was asked to participants in order to establish what additional factors, if any, they feel would further affect foreign investors perception regarding the overall value proposition of a distressed company. The researcher deemed this question as relevant in order to understand how these factors will impact foreign investors' investment decision towards the South African distressed market apart from just the discounted value as earlier discussed in question one.

The table below presents the findings of the additional factors interviewees felt will make a distressed company in South Africa more attractive for foreign investors:

Table 19: Factors attracting foreign investors to South African distressed market

Rank	Construct	Frequency
1	Access to Industry sector	4
2	Gateway to other African markets	2
2	Access to networks and customer base	2
2	Geographical expansion	2
2	Speed to market entry	2
2	Access to Markets	2
3	Access to Contracts	1
3	Access to Skills	1

Upon collection of data it was noted that majority interviewees felt that access to a specific industry sector in South Africa is one of the main additional driving factors of why foreign investors will specifically be interested in the South African distressed market.

As earlier discussed in proposition two, a lot of foreign investors are especially attracted to mineral, resource and retail assets in South Africa. One respondent even commented that some foreign investors are not even worried about distressed but rather the assets *"I don't think they are looking specifically at distressed debt but they are looking at certain sectors that I know, like mining is a big one"* (FIN03).

The second highest rankings respondents felt will impact attractiveness was jointly five factors each having a frequency of two, which included:

- Gateway to other African markets
- Access to networks and customer base
- Geographical expansion
- Speed to market entry
- Access to markets

Two respondents commented that foreign investors will especially be very keen to gain access to distressed assets in South Africa as a strategy due to its established network and infrastructure, with the ultimate end goal of SA serving as the gateway into other African markets. One respondent commented that in one particular Business Rescue case, foreign investors wanted to gain access to African markets stated why they are so specifically interested in that company. The respondent commented *"that company was shortlisted on certain very specific tenders in other African countries. So they had very strategic reasons for it"* (BRP01). The respondent further elaborated on this point commenting *"transactions that I have seen are as a consequence of the acquirer having some strategic reason for making the particular acquisition."* (BRP01).

Another key factor mentioned was geographical expansion where foreign investors would want to gain access to certain locations in certain strategic spots. With the two respondents who confirmed on this, one responded added that the leasing agreements could also serve as an incentive commenting that *"If you have for example again H&M and they want to buy Edgars and they can get all the nice spots in all the shopping centres, all the leases, the leases for example there is one thing"* (FIN01).

Two other factors that were also mentioned among respondents as to why foreign investors would be interested in the South African distressed market is that they can cheaply and easily gain access to certain markets or a certain set of skills which they might not possess. This can especially be a contributing attracting factor as South Africa is well known for its mining and resources. "*transactions that I have seen are as a consequence of the acquirer having some strategic reason for making the particular acquisition. They might want to establish a presence in a new market, they want to gain a particular competency that they don't have, they might have particular customers they want access to"* (BRP01).

5.8.1.3 Determining the buyout value of a distressed company

The third interview question pertaining to proposition three asked interviewees to give their input on how a distressed company will generally be valued by requesting each participant to provide a type of valuation method they feel would be the best to use in order to determine the discounted value of distressed company.

Depending on the flow and outcome of each interview, some participants were further asked to demonstrate how they will go about to structure a distressed company in order to set it up in the best possible way for a potential buyout.

These two questions were jointly deemed by the researcher as relevant as it serves as one of the key findings of the overall outcome of the research study. Table 19 presents the results of the question on valuation method:

Table 20: Valuation method for distressed companies

Rank	Construct	Frequency
1	Use Liquidation value as base scenario	7
2	Buyer/Seller Negotiation	4
3	Blend between going-concern & non-going concern	3
3	Market Based Valuation	3
4	Net Asset Value	2
4	Debt buyout	2

Based on the findings of the question on valuation method to be used, majority respondents were of the view that a simple liquidation method will mostly be used to determine firstly what the base value of the distressed company is. This is called the 'liquidation value' and any price offered or obtained above this value is deemed as a win for the stakeholders of the distressed company, especially for creditors as they will be in a better position to receive a greater return.

One respondent who commented on this said *"we do a liquidation valuation where we say if we were to liquidate this business today what would creditors get, and then it is up to the acquirer"* (BRP01). The respondent further elaborated and stated that *"the valuation is more of a what price am I prepared to pay as the acquirer than what is the true value of the business"* (BRP01). Another respondent explained that one of the advantages of liquidation valuation is that it assists in distressed valuation as it *"provides just simply a useful indication of what the value of the asset is or how much you would have to pay if you picked it up in liquidation"* (BRP06).

This further aligns into the second highest ranked method of valuation, which many respondents commented will also be used to determine the value between a willing buyer and a willing seller, illustrating that liquidation value will serve as the starting point for negotiations between these two parties. Unfortunately for the seller unless there are multiple bidders competing for the same distressed company, the seller will be subjected to whatever the buyer is willing to pay. This further indicates that distressed markets are a buyer market making it therefore even more attractive for investors, both local and foreign, to enter the South African distressed market as deep discounted distressed companies and assets can become available, especially those under Business Rescue with turnaround potential.

Other valuation methods that were mentioned by respondents was that of Market based valuation, where a similar company in the industry is used as a benchmark for market valuation. This was confirmed by one participant who commented *"the valuation is I suppose an assumption of… you know the industry assumption of the asset*" (BRP06).

Net Asset valuation was another method two respondents felt that can be used, whereby the distressed company is valued by taking the balance sheet and determining what its underlying Assets are worth, including inventory. On Net Asset valuation one respondent commented that when valuing a distressed company *"they will go through the whole inventory and assets and balance sheet of the business and say okay as a non-going concern and I liquidate what will I sell. Then they say well I am a going-concern, it is still a business in trading, so I can add, it's not just that I have to sell assets, so that is how they will come to their value"* (FIN01).

Three respondents however commented that they recommend a various blend of valuation methods is to be used in order to get the most accurate valuation, that shows a company operating as both a going-concern and a non-going concern (liquidation scenario) and find the average middle ground value between these two valuations. One participant commented that *"the normal fundamentals don't generally apply so that's why* *coming back to that, you do various valuations, you do a blend of them"* (FIN05). Another respondent confirmed on this and said that *"in business rescue that is quite open, so we have two valuation methods; a going-concern verses your liquidation – distressed valuation would always be higher than liquidation value, so it will be the in between value"* (BRP02).

5.9 Conclusion to Research Proposition Three

Looking at the data collected and the findings of the analysis, it is evident that the discounted value of distressed companies in South Africa will impact the appeal and attractiveness to foreign investors. It was however mentioned by some of respondents that the although the deep discounted value will hugely impact the attractiveness of a distressed company to a foreign investor, there are other factors involved that needs to be aligned as well that will impact the eventual decision of the foreign investors buyout decision. The opportunity and risk factors of both the distressed company under Business Rescue as well as the external macroeconomic factors are further discussed under Proposition Five.

Based on the results of the findings, it therefore supports Proposition Three and concludes that the discounted value of distressed companies indeed impacts the attractiveness to foreign investors.

5.10 Results: Research Proposition Four - Foreign investors buying out distressed companies will yield a better return for creditors and increase the success rate of Business Rescue

5.10.1 Introduction and Overall Results

Research Proposition Four focussed on foreign investors buying out distressed companies in South Africa and what impact it will have on the local stakeholders of distressed companies, mainly the creditors involved. This proposition focussed on obtaining further data on whether or not such buyouts by foreign investors will indeed increase the success rate of Business Rescue. Interviewees were asked three main interview questions which can be found in Appendix 3 under the Interview schedule.

Upon collection of data it was evident that majority of the respondents felt foreign investors buying out local distressed companies will definitely have an impact on all relevant stakeholders including creditors. Overall respondents felt it will positively impact the distressed industry, while some were of the view that while foreign investment is good there needs to be kept a balance and it will depend on the nature of the distressed and investment scenario. The table below presents the responses of the first question asked to the participants.

Table 21: Buyouts by Foreign Investors will impact stakeholders of distressed industry

Rank	Construct	Frequency
1	Yes	8
2	No	5

From the 13 respondents, eight participants commented they feel it will definitely have a positive impact on the distressed industry and the stakeholders involved in the process, while the remaining five were of the view that irrespective if investment comes from foreign or local investors the outcome and impact will remain unchanged. The table presents the findings on how respondents who answered yes felt it will impact the distressed industry and the stakeholders involved in the process:

Table 22: Impacts of foreign investor buyouts on local distressed industry

Rank	Construct	Frequency
1	Adds Competition	7
1	Improved returns to creditors and buy-in more into the BR system	7
2	Attracts more foreign investment	2
3	Ability to create a sustainable business	1
3	Improves local expertise and skills	1

The eight respondents who confirmed it will have a positive impact on the South African distressed industry, had a couple of strong points of views. The highest two rankings however mentioned was that it adds to competition, which will increase price due to more available bidders, and therefore leading to improved returns to creditors and more buy-in into the Business Rescue system.

One respondent who commented on the added competition felt it would especially motivate more local investors to start setting up distressed funds and start mobilising more local investors to start parting in the distressed industry, as they would feel they are losing out on valuable opportunities. The respondent who commented on this, asserted that the impact will be significant and commented *"Hugely because I think the local market will see well if the foreign guys are coming in here and making acquisitions in rescue we are going to be left behind"* (BRP03). Another respondent also added on the increased competition that *"competitive tension maximizes outcome, the more players there are that want to come in to play this game the better it will be ultimately for creditors and employees"* (BRP04).

Two of the seven respondents commented that foreign investment buying into the distressed industry could also lead to improved returns to creditors and also lead to more buy-in into the South African Business Rescue system, which ultimately will lead to an increase in the success rate of Business Rescue. One respondent commented on this that to *"have more investment, you have high success rate, you have more people buying into the process, you know effect a person's belief in it and so it gets better*" (FIN04).

Some respondents were further of the view that additional added advantages foreign investors might bring is that they can create a more sustainable business due to the level of expertise they might possess in a specific industry which might not be easily obtainable in the local market and by this also improve local skills. One respondent commented on foreign investors *"can change a model of a specific company, most of the times resource bound, with their funding and can make it a lucrative or commercially sound business where South Africans would struggle"* (BRP02). Another key impact is that can lead to further attraction of local and foreign investment.

5.10.2 Increase the success rate of Business Rescue

The final interview question requested respondents whether or not they felt that based on the answers provided in the initial questions that the buyouts of distressed companies by foreign investors will indeed increase the success rate of Business Rescue.

What was interesting to observe on this question was that although the initial results of the first interview question of proposition four suggested that majority of the respondents felt they believed that investment by foreign investors will have a positive impact on the distressed industry, the results on this question however shows that respondents believed it will not really improve the success rate of Business Rescue. Results are shown below in the below Table.

Table 23: Foreign investors will increase success rate of Business Rescue

Rank	Construct	Frequency
1	No	7
2	Yes	6

Based on the findings on this question, majority respondents believed that it will not increase the success rate of Business Rescue with a frequency of seven versus the six respondents who felt that it will increase the success rate. Of the participants who said no; commented *"I don't think there is any distinction; you know a foreign investor is not going to increase or decrease the success*" (BRP05). Another respondent who also had an interesting perspective believed that a local investor would actually be better able to make a success than foreign investors, as local investors would be more aware of the local 'know how' in the market and the risks involved.

The respondent commented *that "there are so many factors that can make it fall through its own, and South African companies probably have deeper knowledge in terms of what the regulatory environments look like"* (BRP04). While another respondent further elaborated that "*the fact that you have an acquisition by a third party, an outside party from Africa or South Africa, doesn't automatically mean you are going to make a success of it"* (BRP02).

Of the six respondents who felt that it would increase the success rate of Business Rescue, one participant asserted that it will definitely have a massive impact commenting that *"it will be a huge impact, the more we see foreign investors investing I think it will affect local players as well"* (BRP03), while another respondent also commented that *"you have more investment, you have high success rate, you have more people buying into the process, you know effect a person's belief in it and so it gets better"* (FIN04).

5.11 Conclusion to Research Proposition Four

Based on the findings it shows that many respondents were of the view that foreign investors will have a positive impact on the distressed industry and the stakeholders involved, especially the creditors involved. Many respondents however elaborated on their view that for creditors it does not really matter where the funds come from, just as long their investment is repaid. Some of the interviewees elaborated further on this point and commented that some creditors will even be more comfortable to deal with local investors than foreign investors, as they might be more familiar with local investors and more likely to work with them, due to the level of trust and certainty involved. Respondents did however mention that foreign investors will add to the competition, which ultimately will increase the outcome of success and return for creditors.

In conclusion, although foreign investors will definitely have a positive outcome on the distressed industry and its stakeholders involved, no guarantee can be given that foreign investors will indeed increase the success rate of Business Rescue and yield a better return for creditors. This therefore shows that there is not enough evidence to support Proposition four and is therefore rejected.

5.12 Results: Research Proposition Five - The protection of the moratorium of companies under Business Rescue and the amount of debt the company under Business Rescue owes creditors will impact foreign investors' view of the value and attractiveness of the buyout

5.12.1 Introduction and Overall Results

Proposition Five specifically focussed on distressed companies who have entered the formal process of Business Rescue and what the opportunities and threats are that these companies under this formal process possess should foreign investors consider to buyout such a distressed company. In general, three interview questions were asked to the participants requesting them to list what opportunities and threats they feel will impact a foreign investors buyout decision and why. Participants were also asked to express their view on what external market factors in the South African macro environment they feel will impact foreign investors buyout decision of local distressed companies.

5.12.1.1 Opportunities distressed companies under Business Rescue offer foreign investors

Upon collection of data of the first interview question for proposition five, majority respondents were of the view that the protection of the moratorium is seen as the main opportunity for foreign investors when considering to buyout a company under Business Rescue.

Table 24 presents the results of what interviewees felt are opportunities companies under Business Rescue offer that will attract foreign investors:

Table 24: Opportunities of companies under Business Rescue

Rank	Construct	Frequency
1	Protection of the Moratorium	8
2	Business Rescue plan	4
2	Certainty of claims	4
2	Deep discounted Assets	4
3	Legal protection	2
3	Potential for cheap debt trading	2
4	Potential loopholes	1

The top three highest ranking constructs consisted around the themes of the protection that Business Rescue can offer investors, including the certainty of the claims and the legal protection against the company. The other emerging themes that companies under Business Rescue offers investors is the availability of deep discounted assets, opportunity for cheap debt trading, as well as the loopholes in the Business Rescue Act that investors can perhaps exploit and use to their advantage due to relative newness of the Act and having many 'grey areas' in the Act.

In total eight respondents felt that the moratorium was the biggest opportunity and one of the main advantages a company under Business Rescue can offer foreign investors, as it provides investors with a bit of breathing space in order to successfully plan restructure the company. One respondent commented that the *"moratorium gives the opportunity to restructure and you have got the breathing space to restructure. You can sit back, have a cold hard look at where this company has come from, why is it financially distressed"* (BRP03). This was also further confirmed by a different respondent who felt that the moratorium is a massive opportunity that could attract investors, commenting that *"the moratorium gives you the breathing space now to figure out what needs to be done. So huge opportunity there, the moratorium helps"* (BRP04).

Two other respondents conversely however felt that the moratorium is not really an opportunity. One participant who felt very strongly about this responded that *"the moratorium is not the benefit"* (BRP03), and felt that an approved quality Business Rescue plan is rather a greater opportunity. The respondent further elaborated on this and commented that *"the ultimate implementation of an approved plan is heaven. I don't think there is a cleaner business to buy than a company that has obviously exited* *business rescue because most of the times you compromise claims, and creditors, even if they are not aware of them the practitioner at that time will be bound depending on how they have drafted the plan, by the result"* (BRP03).

Another main factor mentioned by four respondents that also seems to be one of the more attractive opportunities, is the added advantage that foreign investors can pick up deep discounted assets. One respondent commented and summarized the whole package involved around buying out a company under Business Rescue as *"huge opportunity there, the moratorium helps, the liquidation dividend helps, the deep discount helps and then you can clear off everything clean it all up before you let it go out of business rescue"* (BRP04). Another participant further confirmed and commented that foreign investors could pick up cheap assets at deep discounted prices commenting that *"in business rescue from a foreigners' perspective you can probably get it cheaper"* (FIN06).

The other main factor that also ranked second highest was having certainty regarding the claims against the company, whereby the potential investor or buyer will at least know in advance with what and who they are dealing with. One respondent commented that "*one of the pluses about a company under business rescue is that there is no liabilities hiding in the cupboard"* (BRP07), while another respondent stated that *"it probably is an advantage because then you have got more certainty in terms of you know what you are dealing with. think for a foreigner that sounds contradictory but it gives some level of certainty which they wouldn't have if you were not in business rescue"* (FIN03)

The third highest ranked construct that respondents jointly identified was the legal protection that Business Rescue offers the investor, as well as the opportunity of cheap debt trading.

One respondent who commented on the legal protection a company under the formal process of Business Rescue offers and compared it to a company who is in an informal process without the legal protection and why it is seen as an advantage. The respondent commented that *"Well the protection of the legislation, absolutely, I mean the fact that you can as I say legitimately compromise on the debt and create something sustainable to walk away from"* (FIN04), and further stated that *"Doing it via an informal means that you are open to risk from any other creditor, so you don't know what you don't know in terms of who are all the creditors in the woodwork"* (FIN04).

The other third highest ranked factor identified was the potential opening up for cheap debt trading in the Business Rescue market. The one respondent commented that *"I think it offers the opportunity to trade in debt"* (BRP01), while another respondent believed that the debt of companies under Business Rescue can be utilized and stated *"can compromise the debt and mold the business into something that is sustainable to take forward"* (FIN04).

The final construct mentioned by the same respondent was the potential loopholes of the Business Rescue Act and how investors can perhaps still exploit this avenue until the Act has maturely developed and refined as currently it is broadly written. The respondent commented *"the fact that it is such a new piece of legislation and so much needs to be determined via our court system, so there is therefore much broader scope to be creative now before our legislation catches up and closes all the loopholes"* (FIN04)

5.12.1.2 Threats of companies under Business Rescue

The second interview question asked respondents to identify what they feel are threats that companies under Business Rescue possess that will make them less attractive to foreign investors when looking to buyout these distressed companies.

The table below presents the constructs of the threats identified by the respondents that could impact the investment decision of foreign investors and make it seem less attractive:

Table 25: Threats companies under Business Rescue pose to foreign investors

Rank	Construct	Frequency
1	Lack of Audited financial records	4
1	Uncertainty in the Business Rescue Act	4
2	Inexperienced Business Rescue Practitioner	2
2	Stigma leading to loss of Customers	2
3	Courts to slow	1
3	Limited Time available	1
3	Normally no more free Assets available	1
3	Require creditors preapproval	1

In general, respondents viewed the lack of proper audited financial records and the uncertainty of the Business Rescue Act as two of the biggest threats. This was followed by the possible inexperience and lack of trust in the Business Rescue practitioner involved, as well as the stigma created around a company that went into Business Rescue that might lead to a loss of credibility in the market and ultimately a loss in customers.

The third jointly highest rankings respondents individually identified was courts in South Africa being too slow to gain access to in order to make quick decisive decisions on the way forward for distressed companies, as well as the limited time companies under Business Rescue have available to conduct a proper restructuring process.

The lack of free assets available to serve as security for investors looking to extend funds and the preapproval required by creditors on any decision affecting the process were also ranked as a threat.

Lack of proper financials and the uncertainty of the Business Rescue Act were jointly identified as the highest ranked threats among respondents. One respondent who confirmed on this, commented that the uncertainty of the Act will especially impact foreign investors as they are less likely to be aware of how the process works, compared to local investors. The respondent commented that *"some of the bigger threats is foreign investors not necessarily understanding the process"* (BRP06). The other respondent who commented on the lack of proper financial records stated that *"if you don't have proper financial records at your disposal that can back-up your profitability and your cash flow generation, then you've got nothing to demonstrate why you qualify for funding"* (FIN04).

The researcher especially found a view from two respondents on one of the second highest ranking construct very interesting and of great importance, which was the added stigma the participants felt Business Rescue will place and leave on the distressed companies once it eventually exits the formal process of Business Rescue. This could do great damage to the company brand and ultimately perhaps even permanently damage future relationships with customers, suppliers and any future creditors.

One respondent who felt very strongly on this, commented that the *"perception is so strong against that specific entity that it is very difficult to later on lift its head, so people will normally just move on"* (BRP02) while the other respondent elaborated *"the consequence is that you may lose customers, you may have stigma issues"* (FIN05).

5.12.1.3 South African macroeconomic factors impacting foreign distressed investors

The third and final interview question pertaining to proposition five requested respondents to comment what external factors in the South African macro environment they feel will impact the decision of foreign investors when looking to buyout a locally distressed company.

Upon collection and analysis of data, it was clearly evident that all participants felt very strongly about the sovereign risk of the country posing as the major obstacle to influence the decision of a foreign investor on the price they are willing to pay for a distressed company or asset they deemed as valuable.

This was followed by labour law and regulations being the second and third highest ranking factors respectively. The table below presents the findings on the macroeconomic factors respondents believed will impact a foreign investor buyout decision of local distressed companies:

Table 26: Macroeconomic factors impacting foreign investor decisions

Rank	Construct	Frequency
1	Sovereign risk	13
2	Labour law and cost of labour	7
3	Culture risk	2
3	Illiterate workforce and the low productivity level	2

All respondents concluded that sovereign risk of South Africa is the main challenge that will impact and determine the appetite of whether a foreign investor wants to gain access to a specific company or industry sector in the South African distressed market. Some factors under sovereign risk mentioned by respondents included currency risks, political uncertainty and ultimately the ease of doing business in South Africa.

One of the respondents who felt this will negatively affect the attraction of foreign investors, commented that the ease of doing business in South Africa is one of the worst, commenting that *"South Africa was ranked at about 140 in terms of ease of doing business; so we are one of the most difficult countries in the world to do business with. 140 out of 140"* (BRP01).

Another respondent further elaborated on the uncertainty regarding land ownership and policies and commented that *"things like SA macro quality, so I've got one for example* *now where we have got a farm and land ownership is a problem. Because I've got an investor and they say well where does the SA government stand and I can't answer that. So that part of rescue has got to do with the local policy and government and politics"* (BRP06).

The second highest ranking respondents felt was an influencing factor was the labour law and the cost of labour in South Africa, which they felt might also make it quite challenging for foreign investors as they might not understand the law and that can cause a lot of stress especially when it comes to resources. One respondent commented on this and said that *"it sometimes creates so much stress they just decide stuff it we're not going to go through this – all the labour issues, all the ownership issues, it is just not worth our while"* (BRP02) and further elaborated *"we have very very stringent labour laws which is good to protect people, I've got no problem with that, but it doesn't make the process easier especially when it comes to resources*" (BRP02). Another respondent further stated on both labour and culture that *"it is labour law, it is loyalty and the ability to motivate and it is cultural fit"* (BRP07)

The third factor participants felt will highly impact foreign investors' appetite into distressed investment market in South Africa, is the level of unskilled workforce and lower levels of productivity. One respondent commented this said *"the other thing that we are also ranked in the bottom, our worst ten performing, one of them was the level of Math and Science literacy in the workforce. We were 140 out of 140"* (BRP01) while another respondent commented on the level of work productivity that *"our productivity is low"* (FIN02).

5.13 Conclusion to Research Proposition Five

Looking at the results of the findings it is clearly evident that majority of the respondents agree that the moratorium is one of the main opportunities available for foreign investors. It was further also concluded that the highest ranked factors mentioned was around the protection and certainty that the Business Rescue Act provides to investors. This included the certainty of claims, the legal protection, as well as the Business Rescue plan in place.

On the amount of debt the distressed company under Business Rescue owes, nothing was really mentioned among respondents that this was seen as a threat, but rather factors such as lack of proper accounting records, uncertainty in the Business Rescue Act and lack of trust in the Business Rescue that were identified as threats. Some respondents were actually of the view that the amount of debt might even be a form of opportunity as this can lead to increased future development of debt trading in South Africa.

In conclusion, the findings on the opportunity side supports the first part of Proposition Five, however there was not enough evidence to support the second part of the Proposition and therefore only the first part can be confirmed and the latter part is therefore rejected.

5.14 Results: Research Proposition Six - Global and local economic developments will positively impact foreign investors' investment decision and bring new opportunities for foreign investors into the Business Rescue Market

5.14.1 Introduction and Overall Results

The final proposition focussed on what impact some of the recent global and local economic developments of the years 2016 to 2017, would have on foreign investors perspective towards the South African distressed market. These developments included Brexit, the new administration of USA and the South African downgrade in credit ratings to Junk status.

Upon collection of data it was observed that the majority of participants held a similar point of view regarding Brexit and the new US administration, in the sense that it will have little to no effect on foreign investors' decision when considering to enter and invest in the distressed market of South Africa. While general participants were of the view that they can't really see these two events have any impact on inflow of investment, a small number of respondents were however of the view that new investment opportunities could arise from this.

Regarding the recent downgrade of the South African credit rating to Junk status, seven of the 13 respondents were of the view that it will definitely have a negative impact on foreign investors looking at distressed assets in South Africa, the remaining six however felt that it will have a positive impact as new investor types, although aggressive, will start entering the market as even more discounted assets will be available.

5.14.1.1 Impact of Brexit

Majority of the respondents were of the view that Brexit will have no real impact on foreign investors decision towards distressed investment and buyouts in South Africa. Of the 13 respondents, seven were of the view that it will have no real impact, five felt it might have a positive impact on investment towards the South African distressed market and one commented that they are unsure of the impact. The table below presents the findings on the impact participants felt Brexit will have on the South African distressed and Business Rescue market:

Table 27: Impact of Brexit

Rank	Construct	Frequency
1	No	7
2	Yes	5
3	Unsure	1

Although the majority felt it will either have a negative or no real impact, there were respondents who however raised interesting points during the discussions on the impact of Brexit mentioned below:

- Increases competition and competitiveness amongst other global investors, as it opens opportunity for an additional player now to enter the market (both UK and EU and not just EU alone)
- Better trading terms can be negotiated with UK versus that of EU
- Increases investment opportunities

Two respondents were of the view that Brexit will be advantageous towards South Africa in the sense that it will increase investment due to the new uncertainties now in UK, global investors will therefore seek to invest elsewhere like South Africa which will further increase the competitiveness amongst other global investors.

One respondent commented that *"it might be better for South Africa because we currently deal with the European Union, but if can start dealing with the UK on its own we are in a position to actually attract better investment because we can negotiate better terms. All of a sudden it just opens up another player"* (FIN01), whilst another respondent commented that *"I think in both the States and in the UK, there might be an appetite to look beyond those borders because there is just uncertainty within those borders"* (BRP03).

15.14.1.2 Impact of new US administration

During discussions it was observed in respondents' expressions, both verbal and nonverbal, that majority were of the view that the new US administration will also, as in the case of Brexit, have little to no impact on investment towards the South African distressed market.

In the case of the new US administration, eight of the 13 respondents commented that they do not feel it will have any real impact, while three were of the view that it will have a positive impact by potentially bring in new investment into South Africa because of the uncertainty in the US and the remaining two respondents were unsure of what the future impact will be.

The table below presents the findings on the impact participants felt the new US administration will have on the South African distressed market:

Table 28: Impact of new US administration

Rank	Construct	Frequency
1	No	8
2	Yes	3
3	Unsure	2

Some key points mentioned by Interviewees during discussions are presented below as follows:

Views that new administration will have little to none or negative impact on SA market

- The pool of foreign capital will shrink for South Africa
- South African market too small and not on US radar
- Africa is a very risky profile. America would much rather invest in distressed markets of South America

Views that new administration will have positive impact on SA market

- Might see small pockets of investment due to uncertainty in America
- Big Funds in America might consider hedging their risk in SA

Three respondents commented that there might be a potential for increased investment opportunities, however small, coming to South Africa. One responded who commented said that *"I think in both the States and in the UK there might be an appetite to look beyond those borders because there is just uncertainty within those borders"* (BRP03).

Another respondent further elaborated that the US administration inward looking investment into America is actually going to have the inverse affect and might be advantageous for South Africa. The interviewee commented that US is *"going to be inward looking, inward investing into the United States and there is a lot of big big funds in America that are probably going to look elsewhere to hedge their risks. So he is actually going to have this unintended consequence of probably an increased outflow in US"* (BRP04). The other respondent commented that *"I think it plays to our advantage because there is political uncertainty there, the same with Brexit. So all of a sudden our uncertainty does not seem as extreme"* (FIN05).

5.14.1.3 Impact of Junk Status

On the impact of the recent downgrade to Junk status in South Africa, majority held the view that it would undoubtedly have a negative impact on foreign investment into South Africa, even more so now in distressed markets. Seven of the 13 participants commented that it will have a negative impact, while six held a more positive view, feeling that it is actually going to open up some opportunities for new types of investors and value-add into the South African distressed market.

The table below presents the findings on the impact participants felt Junk Status will have on the South African distressed market:

Table 29: Impact of Junk Status

Rank	Construct	Frequency
1	Negative	7
2	Positive	6

Negative Impact

The interviewees who felt that it will negatively impact investment into South Africa exclaimed that the main issue with the downgrade is that the large pool of investors will withdraw including institutionalized investors such as large pension funds, development financial institutions and certain banks who are not allowed to invest in countries because of the risk. The other issue is that the local development financial institutions are reliant on foreign grants and they now need to borrow at higher rates which negatively impacts further development. One respondent commented on institutionalized investors that the *"downgrade to junk status will affect them negatively because that is what junk status means, is that certain institutionalized investors, and by that I mean pension funds and those sorts of people, banks, DFIs, they are not allowed to invest in countries where they are junk. Balance if you ask me right now sitting here today, bad, negative"* (FIN03).

Another respondent further elaborated and said that it is a *"huge problem for us because the DFIs in our country that used to only survive because of government grants, government investments, that has changed and companies and organizations like Land Bank and IDC now need to create their own value and if you are downgraded to junk status they are still reliant on overseas grants or loans and that creates problems"* (BRP02). The respondent also further commented on the development financial institutions that *"suddenly they need to borrow money at higher rates because of the risk factor which stops them creating opportunities within South Africa, so that frustrates development"* (BRP02).

Positive Impact

Four interviewees responded that despite the withdrawal from larger institutionalized investors, they were of the view that it will open up opportunities for more aggressive new types of investors entering the market. Some opportunities mentioned during discussions respondents felt would arise for foreign investors due to Junk Status were:

- Availability of cheap assets for foreign investors
- Risk and reward factors, due high value that can be extracted and created
- More and new types of aggressive distressed investors

The below table shows the opportunities mentioned by interviewees, as well as the frequency levels of each construct:

Table 30: Opportunities identified as a result of Junk Status

Rank	Construct	Frequency
1	New Investors	3
1	Risk & Reward	3
2	Cheap assets	1

Based on the findings of the opportunities identified, new types of investors and the risk and reward factor was identified as the highest ranked factor with cheap assets the second highest ranking.

New types of Foreign Investors

The three respondents who felt new types of investors will arise, commented that foreign Investors such as Vulture and Hedge fund investors will likely be keen to invest in the distressed market, due to better returns they might receive One respondent commented on whether or not there are opportunities and said *"I think there could possibly be there because you've got the asset managers and the likes are going to be forced to disinvest and then you get more vulture funds and hedge funds coming in because they can get better returns"* (BRP05).

The respondent further elaborated and commented that more *"aggressive"* foreign investors might now start coming to the South African distressed market and commented *"I think you may get a benefit there but it is going to be a whole lot more aggressive, it's a whole different management style than a normal asset manager to these vulture funds"* (BRP05).

Risk and Reward and the availability of cheap assets

Three interviewees were also of the view that Junk Status will further serve as an opportunity regarding pricing, as well as the risk and reward involved therein, which could make it more attractive for these types of foreign investors. The one respondent who felt strongly on this commented that *"you are going to see a capital outflow but you have opened the door to a new breed of investors"* also further elaborated that *"it's going to bring back a different type of investor who is far more happy with higher risk who will chuck some dollars at it and see"* (BRP04).

During discussions, one interviewee who also felt that Junk status will have an inverse reaction on distressed investment into South Africa stated that it can and actually be more advantageous and will attract more foreign investment from other sorts of funders, due to the risk and reward factor involved.

The respondent commented on this view saying *"So I see probably more opportunity with junk status than I do negative"* (FIN04), and further elaborated that *"there are opportunities in junk because of the reward factor, the pricing factor"* (FIN04). Another respondent further commented that if the risk and reward is worth it stated on foreign investors that if they *"see that the risk is worth the candle here and identify assets which are even cheaper than would be the case if there was a political change in South Africa*" (BRP03).

5.15 Conclusion to Research Proposition Six

Based on the results presented, majority of the respondents were of the view that the global and economic developments that took place will indeed have an impact, both positive and negative, on the South African distressed market.

Although some respondents mentioned they see new opportunities will come to life, majority were however of the view that it will be more negative than positive and that no real investment opportunities will arise.

In conclusion and based on the findings, there is therefore not enough evidence to support Proposition six that it will either have a positive impact on the South African distressed industry or that any new opportunities will arise following these three global and local developments. Based on the lack of support, proposition six is therefore rejected.

Conclusion

The final results of the six propositions that were designed and presented were in general terms supported by data. The propositions further generated an entirety of significant results that are deemed to be valid and consistent with the overall findings. In total the first three propositions presented enough evidence to be fully supported, whilst proposition four and six did not have sufficient and clear evidence to support and was therefore rejected.

The initial part of proposition five regarding the protection of the moratorium, had clear and sufficient evidence to be supported, while the latter part lacked sufficient evidence and was therefore rejected.

The table below presents the summarized results of each of the six propositions that were tested:

Table 31: Summarized validations of the six propositions tested

• **Proposition #1:** Locally, distressed funding for companies under Business Rescue is currently limited	Supported
• **Proposition #2:** Foreign investors are increasingly becoming aware of valuable distressed assets available in South Africa	Supported
• **Proposition #3:** The discounted value at which distressed companies in South Africa can be bought at increases the appeal and attractiveness to foreign investors	Supported
• **Proposition #4:** Foreign investors buying out distressed companies will yield a better return for creditors and increase the success rate of Business Rescue	Rejected
• **Proposition #5:** The protection of the moratorium of companies under Business Rescue and the amount of debt the company under Business Rescue owes creditors will impact foreign investors' view of the value and attractiveness of the buyout	Initial half supported; latter half rejected
• **Proposition #6:** Global and local economic developments will positively impact foreign investors' investment decision and bring new opportunities for foreign investors into the Business Rescue Market	Rejected

There was sufficient evidence presented to support the first proposition regarding limited availability of local distressed funds and funders. Some of these limited funders available include the incumbent banks already involved in the process, small pool of local niche distressed investors, as well as some form of support or relief that can be offered from existing customers and suppliers.

It was further also clear that, although not many deals have been concluded, there is an increased awareness coming from foreign investors. With evidence presented as well as the fact that local investors are starting to become more aggressive towards setting up funds to acquire distressed assets.

In Chapter 6, the results and findings of the research process are discussed in relation to the literature on distressed companies and Business Rescue in greater detail.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

In Chapter 5, the results of the in-depth interviews were presented regarding the study of valuing companies under Business Rescue to attract foreign investment and whether or not there is indeed an opportunity or not to attract foreign investors to buyout these distressed companies. In this chapter the researcher will discuss in detail and interpret the results presented in Chapter 5 on the buyout of distressed companies, especially those who are under Business Rescue. This will therefore be in context with the overall research study, and in relation to the literature reviewed and presented in chapter two on attracting foreign investors.

6.2 Research Proposition One: Local distressed funding for companies under Business Rescue to survive the full duration of the Business Rescue period is currently limited

Proposition one, aimed to confirm whether local funding for distressed companies is currently limited, especially companies under Business Rescue. This was done by identifying who the current industry players are providing finance and what factors contribute to local distressed funding being limited. It was further the aim to determine what can be implemented or altered in order to attract in future more local funding and assist distressed companies.

6.2.1 Local funders of distressed companies

In Chapter five, Table 5 presented the source of funders the thirteen respondents identified as currently being viewed in the distressed industry as the local funders or lenders for distressed companies, either under a formal process such as Business Rescue or in an informal process. These funders identified and their availability will be discussed in this section in relation with the literature presented in Chapter 2.

The aforementioned table presents the eight sources of funders identified by the participants. The data collected was analysed based upon frequency and accumulated counts. The highest ranked source of distressed funding identified, with a frequency of 13, was the existing banks already involved in the distressed process with the individual company. All respondents therefore concurred that this was seen as the main source of distressed funding in South Africa.

During the interviews, the observation of the main source of distressed funding identified in South Africa, for both the informal distressed industry and the Business Rescue market, is the existing banks already involved with the distressed company. Other sources of distressed funders observed included existing shareholders of the company, trade creditors or suppliers of the company, development banks, as well as any external financiers such as Private Equity funds operating in distressed market options.

All thirteen respondents however concurred that the main source of distressed funding is still the existing banks involved. This was supported by existing literature from both Pretorius & Du Preez (2013), as well as a restructuring survey report done on the South African distressed market in 2017 (Deloitte, 2017), stating that banks are seen as the main source of current distressed funds. The available internal sources of funds that were presented can serve as a funding or assistance option, the challenge however with these forms of funds is the inability to sustain the distressed company on a longer-term basis and can only be viewed as short-term and a temporary solution (Pretorius & Du Preez, 2013).

Respondents exclaimed that the main reasons why existing banks will most likely be the main source of extending funds is the fact that banks are already exposed to the risks and are either trying to recover as much value as possible (if any is still available) by assisting to keep the company afloat in the hopes that it will return to a going-concern or trying to protect their already vested interest.

There were conversely also mentioned that existing banks will however be very reluctant to extend additional funds if no unencumbered assets are available to serve as security, which in most cases when it comes to companies already under Business Rescue no additional security remains left. This was further supported by existing literature from both Pretorius & Du Preez (2013), as well Smith & Graves (2005), who stated that in order for a distressed company to gain access to distressed funds, it needs to have free assets available that can serve as security.

Other sources of funds participants mentioned, was the potential for niche type of Private Equity funders operating as distressed investors to invest or extend funds. The third likely avenue would be from internal sources such as the current shareholders, development financial institutions, supplier and customers. These sources of funders were all supported by literature of Pretorius & Du Preez (2013), and a restructuring survey report on the South African distressed industry (Deloitte, 2017).

Further sources of available funders the respondents mentioned was more focussed on investors/buyers looking to either looking to buyout distressed companies and wealthy individuals looking to buy cheap assets.

It was interesting to observe during discussions that the niche Private Equity funds operating as distressed investors/funders was mentioned by nine respondents while the extension of funds by the current shareholders only five times. The reason of interest is that majority respondents mentioned that there are only one to a maximum of three types of these local distressed funders/investors currently in the distressed market and the investment value they are maxing out is at an amount of R50 million. This further state that they are limited in both availability of funders as well as deal size.

The sources of distressed funds identified and mentioned by respondents supports the literature that was reviewed and presented in Chapter 2 by Pretorius and Du Preez (2013), and a restructuring survey report done on the South African distressed market (Deloitte, 2017). The data regarding existing banks currently being viewed as the main source of distressed funding are mostly cases unable to extend additional funds, as real security remains left. This was supported by the literature presented by both Jijana et al., (2015), and Pretorius & Du Preez, 2013, stated that the existing banks or distressed lenders require some of security and in most Business Rescue cases little to none remain left.

On the availability of funding for companies under Business Rescue the data collected from all 13 interviewees supported the formulation of the concept that local funding is indeed currently perceived as limited for distressed companies. This further supports literature by Jijana et al., (2015), that there is still a lack of available distressed funding which leads to majority of the Business Rescue cases being unsuccessful.

It was observed during interview discussions that respondents felt funding is limited due to the maturity of the Business Rescue Act and the uncertainties surrounding the Act. (Jijana et al., 2015), It appears that due to newness of the Business Rescue system, no real track record of success is available to give funders enough confidence to either further extend or invest in these distressed companies.

An interesting observation and finding made which is further discussed in detail is for the Business Rescue industry to market or ‘sell’ the Business Rescue process more and perhaps even publish past successes. In this regard further awareness can be created that could build confidence among investors or funders, both local and foreign, that could to stimulate more interest in the South African distressed and Business Rescue market.

The researcher could not identify at the time of this research any literature regarding the aforementioned point of interest, however Jijana et al., (2015), concurred that ambiguities surrounding the Act is still a major challenge facing the Business Rescue industry.

The second highest ranked factors were found to be jointly that of clarity on the Act regarding where any form of additional funds such as post-commencement finance will rank if provided, lack of trust in the Business Rescue practitioner and the lack of audited accounting information. Further factors on why the participants felt that distressed funding is not readily available is due to the fact that local distressed players, which was raised earlier as a point of interest or rather a point of concern, are currently limited. The lack of additional security, lack of expected return, size of the market being too small and the uncertainty in the SA market conditions.

Majority of the higher ranked constructs were therefore supported by literature from Burke-le Roux and Pretorius (2017), Jijana et al., (2015), and Pretorius & Du Preez (2013), on the lack of the trust in the Business Rescue system due to its newness, trust in BRP, lack of additional security and uncertainty of rankings on new funding coming in.

The literature is further supported by participant responses regarding factors that will assist in attracting more local distressed which included earlier identification of distressed and initiation of Business Rescue, if company is unable to do an informal turnaround, clarity on the Act regarding rankings of new funds issued and regulation on BRP (Burke-le Roux and Pretorius, 2017; Jijana et al., 2015). Based on the findings on the available pool of distressed funders and the factors impacting the availability of these funds, the study therefore supports the literature that local distressed funding is indeed limited. (Jijana et al., 2015 & Deloitte, 2017)

Concluding on discussions regarding the availability of distressed funding in South Africa, especially for companies under Business Rescue it is evident from the industry expert responses from the interviewee participants that all thirteen respondents concurred that although a few sources of funders are available they indeed appear to be limited due to the various reasons earlier mentioned. The literature equally supported these findings and therefore both the results from the respondents and the literature provide sufficient evidence that supports Proposition one.

6.3 Research Proposition Two - Foreign investors are increasingly becoming aware of valuable distressed assets available in the South African distressed market

Proposition Two aimed to confirm whether foreign investors are increasingly becoming aware of valuable assets available in the South African distressed market. The researcher further elaborated on this proposition and developed the interview questions to establish which countries these foreign investors are from, the types of investors they are, as well as which industries in SA they are specifically targeting.

The relevance of this was in order to define if a pattern can be seen of a specialized pool of foreign investors that in future the industry experts in the South African distressed industry can identify and target to either forge networks and relationships that can assist with international buyout transactions. This can be seen as beneficial as it might either lead to a knowledge and skills transfer that will assist local distressed industry players looking to setup distressed investment funds with increased know-how or developing a global network where both a distressed company available for a potential buyout is presented and where the Business Rescue system is marketed and its successes publicised.

The benefit of the aforementioned is that the South African distressed companies and the Business Rescue system will be more in the 'public eye' which might gain more attention to local distressed industry and possibly attract more interested foreign investors.

The first interview question requested respondents if they feel foreign investors are increasingly becoming aware of valuable distressed assets in South Africa and to substantiate their answer by providing reasons for their initial response.

Looking at Table 10, it can be seen that the outcome was fairly even spread by simply answering yes or no and then afterwards to expand on their reasoning for their answers regarding increased awareness from foreign investors. The majority of the respondents stated that they do indeed feel foreign investors are increasingly becoming more aware of valuable assets in the South African distressed market

It was however interesting to note that from the respondents who confirmed yes, some that elaborated that although increased awareness is coming from foreign investors many respondents have yet to see any form of foreign investment deals concluded in the Business Rescue market or distressed industry. The uncertainty can be from both the uncertainty in the Business Rescue Act, as mentioned in proposition one or for general distressed transactions the uncertainty of the local market as well as the sovereign risk South Africa poses is just too great.

The respondents further elaborated that the reasons they feel there is increased awareness was firstly due to industry players looking to expand and acquire either large resource deposits or large assets such as in the retail space in South Africa. The factors were further also that distressed investors are looking to buy deep discounted assets and the saturation of developed markets is making foreign investors to turn their sights more to an emerging market such as South Africa.

This therefore supported the literature presented in Chapter two by Levenstein (2016); Nickig (2014); and Sanchez (2014), regarding increased awareness from foreign investors towards the distressed market of South Africa, especially for companies under Business Rescue. This is mainly due to saturation in the more developed markets and the availability of deep discounted assets, as well as the availability of large resource deposits (Levenstein, 2016; Nickig, 2014; & Visser, 2015).

It further also supported that more interest is seen from countries such as China who are industry players specifically interested in large resource deposits in emerging markets (Ramasamy et al., 2012; Jakada, 2014; & Sayaseng, 2016). Levenstein (2016), also stated that distressed investors in the form of Private Equity funders, Venture Capital firms, as well as offshore hedge funds are increasingly becoming more interested.

The literature however available and presented at the study regarding increased awareness were mostly done before the recent 2017 development in South Africa took place including the downgrade to junk status. This further contribute to the sovereign risk of South Africa identified by respondents, creating therefore greater uncertainty for foreign investors and making the South African distressed market less attractive to invest.

In concluding proposition two, the responses received from majority of the participants indeed indicated that there is increased awareness coming from foreign investors looking at the South African distressed market and therefore supports the literature. One of the main challenges however mentioned was the current sovereign risk of South Africa that poses a major threat and obstacle to foreign investors when considering to invest in the distressed industry of South Africa.

Majority respondents further commented that they know and hear of increased awareness due to foreign investors contacting them, however no real deals have really been concluded to date.

Based on the responses and the factors mentioned by participants, there is sufficient evidence to conclude that the data collected and the literature supports Proposition two. Proposition two however needs to viewed as twofold and further future research needs to be done regarding the actual conclusion of deals, however regarding increased awareness from foreign investors, the proposition is confirmed and supported.

6.4 Research Proposition Three - The discounted value at which companies in distress can be bought at increases the appeal and attractiveness to foreign investors

The third proposition aimed to confirm if the discounted value of a distressed company increases the appeal and attractiveness to foreign investors to buyout these companies. This proposition was further elaborated on how the discounted value will be determined to identify what other factors will impact and make a distressed company in South Africa more attractive

As presented in proposition two, it was mentioned that deep discounted assets such as companies under Business Rescue do lead to an increase in attractiveness for foreign investors. The impact of the South African sovereign risk, especially following the recent downgrade to junk status in 2017, will however impact the decision of a foreign investor. These local developments along with global developments will however be discussed in greater detail in proposition six to follow.

Based on the results from Chapter 5, Table 18 presents the findings of whether or not the discounted buyout value will be the main reason foreign investors will look at the South African distressed market. Majority of the respondents, confirmed yes it will lead to attracting them, while minority believed it would not and that it will actually will be more based on the fact that there are rather strategic reasons in play for foreign investors rather than considering just the discounted value. The discussions regarding specifically on the opportunities and threats companies under Business Rescue poses to foreign investors will be discussed in greater detail under Proposition five.

There was no relevant literature found on what the discounted value of distressed companies will have on foreign investors or any literature found on what additional factors will attract foreign investors to look into the distressed market of South Africa, especially to companies under Business Rescue. The lack of available literature on this can mainly be contributed to relative newness of the Business Rescue Act in South Africa as discussed in Proposition one. This further supports the flow and alignment of the propositions as presented in chapter three.

The main literature the researcher however managed to source was from Levenstein (2016); who commented on investors, both local and foreign, becoming more aware of deep discounted and valuable assets in South Africa. Further literature found was from Visser (2015); Nickig (2014); and Sanchez (2014), who also either commented on the deep discounted assets available or the types of assets foreign investors are interested in, in the South African market.

Additional factors respondents felt why foreign investors would be interested in the South African distressed market included factors such as either access to a specific industry or sector in South Africa; gateway to other African markets; to gain access to specific networks, customer or specific contracts, geographical expansion and speed to market entry into the South African market. The discussions regarding specifically on the opportunities and threats companies under Business Rescue, as well as the macroeconomic market conditions impacting the investment decision of a foreign investor will be discussed in greater detail under Proposition five.

Gaining access to a specific industry or sector appeared to be one of the main reasons why foreign would consider investing in the South African distressed industry and Business Rescue market. Other strategic reasons observed why foreign investors would want to invest in the South African distressed market is that it can serve as gateway to other African markets; provide access to specific customer base, network or contracts.

This literature by Levenstein (2016); Visser (2015), and Nickig (2014), was supported by the responses from participants regarding access to industries such as the large resource deposits and access to other market sectors.

In conclusion, proposition three aimed to confirm whether the discounted value of distressed companies indeed increases the appeal and attractiveness to foreign investors. Based on the responses from the participants, majority respondents confirmed that it will indeed lead to an increase in attractiveness of the distressed company and the value foreign investors attach to these types of distressed investments.

These results therefore support and confirms proposition three, however with recent economic developments to be discussed in greater detail under proposition six as well as the sovereign risk mentioned in proposition two, this will greatly affect the outcome and the value of these distressed companies and how they are perceived as valuable to foreign investors.

The literature further confirms that investors, both local and foreign, are increasingly becoming interested in deep discounted assets available in the South African distressed market supporting therefore the responses from participants that discounted value has a huge impact on the attraction of investors due to the value that can be created. Proposition three is therefore confirmed and supported.

6.5 Research Proposition Four - Foreign investors buying out companies in distress will yield a better return for creditors and increase the success rate of Business Rescue

Proposition four aimed to confirm whether buyouts of distressed companies by foreign investors will yield a better return for creditors and increase the success rate of Business Rescue. The interview questions asked to respondents were to understand and establish what impact a buyout by foreign investors will have on both the distressed and Business Rescue industry, as well as all the relevant stakeholders involved.

Based on the findings presented in chapter five, it was noted that majority respondents felt it will definitely have a positive impact on the distressed industry, while the minority felt that it will no real impact. The respondents who felt that it will have a positive impact commented on a number of factors why they feel it will have a positive impact on the distressed industry and all relevant stakeholders involved. One factor mentioned was that is add competition meaning that as soon as more investors or bidders start entering the market, either local or foreign, it will drive and increase competition which is good for all stakeholders involved with the company in the distress process.

It therefore increases the value of the company if more bidders are available to bid on the company to buy, which ultimately maximises the value especially for creditors and employees. The other positive impact of increased competition is that if local investors are going to start seeing more and more foreign investors coming in and buying out these local distressed companies, they are in a sense going to feel left out and start to develop and play more in the local distressed market as well.

The other factor regarding what impact a buyout by foreign investors will have on both the distressed and Business Rescue industry, as well as the stakeholders involved was that it can lead to improved returns to creditors and more buy-in into the Business Rescue system and thereby increase the success rate of Business Rescue. Many of the respondents were however of the view that a buyout by a foreign investor will have no real impact on the success rate of the Business Rescue industry and no real impact on the creditors.

Based on the fact that no research on this specific topic was done and considering the relative newness of the Business Rescue Act, no relevant literature was available to specifically relate and address proposition four. Recent research concurred on this statement, stating that *"the sale of a distressed business or its assets under business rescue has not been specifically included in the act's governance structure"* (Mkhondo & Pretorius, 2017, p.109). This therefore support the newness of both the Act and this specific research study. It therefore requires that further in-depth future research needs to be done in order to confirm this proposition.

In conclusion, proposition four aimed to confirm whether a buyout by foreign investors will yield a better return for creditors and increase the success rate of Business Rescue. Due to relative newness of the Business Rescue industry and seeing that no real literature was available to support the findings from responses on the increase of success rate. Although the outcome of the responses were fairly evenly balanced between participants, majority however felt that it will have no real impact on the success rate of Business Rescue. The majority of the respondents commented that at this stage of the Business Rescue cycle, it is still too early to determine if a foreign investor buying out a distressed company will have any significant impact on the success rate in the use of Business Rescue.

Based on the findings from respondents it therefore shows that no sufficient literature or findings were present to support proposition four and proposition four is therefore rejected. This further asserts the further development market first needs to take place, which falls under the lack maturity as discussed under proposition two, before this statement can be confirmed and determined.

6.6 Research Proposition Five - Protection of the moratorium of companies under Business Rescue and the amount of debt the company owes creditors will impact foreign investors' view of the attractiveness of the buyout

The aim of Proposition five was to determine if the protection of the moratorium and the amount of debt a distressed company owes respectively serves as an opportunity and threat, and if it will impact the attractiveness towards foreign investors when considering buying out a company under Business Rescue.

Based on the findings presented in Chapter five under Table 24, the highest factor participants identified that could serve as an opportunity, is the protection of the moratorium. This supports the literature by Pretorius & Rosslyn-Smith (2015); Jijana et al., (2015); and Bradstreet, (2010), who states that a moratorium serves as an already implemented protection of the automatic stay on payments to creditors. Based on this and the responses provided by participants, it supports the findings that a moratorium can serve as an opportunity by providing foreign investors with additional time to pay off their owing debt, due to moratorium in place. This could therefore be seen as a factor that can be used to attract foreign investors to perhaps initially fund the company under Business Rescue by paying off the creditors and afterwards buying out the company.

The second highest ranked factors, identified by respondents was the already approved and implemented Business Rescue plan, the certainty of claims and the deep discounted assets available. Respondents exclaimed that for distressed investors to come in to have the ultimate implementation of an already approved Business Rescue plan in place is seen as being of superior advantage and an opportunity to attract foreign investors, as all creditors are bound to the plan and the ability of the investor to influence that plan is very powerful.

This further supports the literature by Jijana et al., (2015), regarding the Business Rescue plan, stating that previously without such a rescue plan in place it was one of the main reasons why companies failed. Jijana et al., (2015), further state that the Business Rescue plan binds all parties, including the creditors and therefore no claims can put in against the company. Based on this and regarding the findings presented in chapter five, the Business Rescue plan therefore serves as an advantage and can be leveraged as an opportunity to draw the attention and attract foreign investors to buyout a company under Business Rescue.

The deep discounted assets available that companies under Business Rescue offer foreign investors, was further also identified as an opportunity. This further supported the literature by both Levenstein (2016), and Nickig (2014), that there are distressed companies and assets available in Business Rescue market, which both local and foreign investors are increasingly becoming aware of and interested in.

The other factor respondents mentioned that can serve as opportunity and attract investors is the certainty of claims companies under Business Rescue with an approved and implemented Business Rescue plan offers. This means that investors will know exactly the type of claims they are dealing with beforehand and that no unknown ‘skeletons’ can come up later in the process whereas buying a normal distressed company the claims are unsure. This therefore will have huge impact on the way foreign investors put a value on a company under Business Rescue.

Based on the data collected from all respondents, the opportunities identified therefore supports the literature regarding the advantages of the moratorium, the implemented Business Rescue plan, certainty of claims, as well as the deep discounted assets available (Pretorius & Rosslyn-Smith, 2015; Jijana et al., 2015; Bradstreet, 2010; & Levenstein, 2016).

It was interesting however to note regarding the amount of debt a company under Business Rescue owes, respondents did not really mention and recognise this as a threat, with some even stating that this in some cases might be seen as an advantage that can lead to a potential of cheap debt trading. This is done where debt can be bought out cheaply in exchange for equity to get a stake of the business or a seat at the Business Rescue table.

Potential threats that were however mentioned that companies under Business Rescue could pose leading to it being less attractive to foreign investors was mostly also earlier identified and mentioned in proposition one. The highest ranked factors were the uncertainty of the Act and the lack of proper audited financial records. The second highest ranked factors were the potential threat of having an inexperienced BRP (leads to a lack of trust in the BRP in general and the overall process), and the stigma that is now attached to the company that went into Business Rescue can lead to a loss in customers.

Interesting to note that although the severity of distress the company under Business Rescue finds itself was mentioned once, it has a huge impact on the outcome and survival of the business and can be seen as a massive threat. The severity of distress leads to whether or not it is able to obtain funds early enough in order to survive as well as the amount of funds can obtain based on available assets or not. This therefore supports the literature from Smith & Graves (2005), regarding the availability of unencumbered assets in order to successfully gain access to distressed funding.

This further also supports the literature by Jijana et al., (2015), regarding the uncertainty in some provisions of the Act, lack of distressed funding for companies under Business Rescue and the competency of the BRP.

In conclusion, sufficient literature is available to support the results presented in chapter five regarding the moratorium being able to serve as an opportunity to attract foreign investors and therefore partially supports proposition five. On the amount of debt however being seen as a threat, no sufficient literature and responses could however be observed from the data collected to support the latter part of proposition five and therefore the amount of debt being seen as a threat is rejected.

6.7 Research Proposition Six - Global and local economic developments will impact foreign investors' investment decision and bring new opportunities for the Business Rescue market of South Africa

The aim of Proposition Six was to confirm whether recent global and local economic developments will impact foreign investors and their investment decision on how it will impact the distressed industry.

The global developments include Brexit and the new US administration. The local development being the downgrade in credit ratings to Junk status. Based on these developments, the proposition further aimed to confirm if any new opportunities will be brought up by this in the South African distressed market.

Looking at the findings that were presented in chapter five under Table 27, Table 28 and Table 29, the main feeling among majority of the respondents on both the impact of Brexit and the new US administration on the South African distressed industry were fairly evenly balanced. These findings are discussed below.

Brexit

Based on the results of chapter five on the data collected from the interviewees, under Table 27 The findings showed that the majority of the participants were of the view that

Brexit will have no real impact on foreign investors decision on whether or not to invest in the South African distressed market. Respondents felt that the UK investors will more likely focus on their own current market or focus on other markets apart from South Africa due to the recent downgrade in credit ratings to junk status. Respondents felt that the recent downgrade will create further uncertainties in the South African distressed market due to an increase in sovereign risk.

Interesting observation however was that some respondents believed Brexit could potentially have a positive impact causing other global investors to rather now start looking to invest in markets such as South Africa, due to the current uncertainty being experienced in the UK. It will therefore further increase competition and competitiveness among the various global investors as it now brings in another player into the market. W\here in the past it might only have been the EU operating as a player, the UK which will now be separated from the EU and can now also enter the South African market on its own. This could, potentially be beneficial for South Africa as better trading deals can be negotiated with the UK, than what it was with the EU. This will therefore further increase investment opportunities.

This supports the literature by Hunt & Wheeler (2017), that the British will now operate independently from the European Union and this will impact the way trade and investment is conducted into and out of the UK (Hunt & Wheeler, 2017). According to literature presented in Chapter 2, the credit rating company ‘Moody’s’ were of the view that this will impact the foreign direct investment into South Africa, both positively and negatively, as South Africa is seen as one of the largest recipients of foreign investment from the British, especially in the mining and financial services (Gibb, 2016).

New US administration

Looking at the findings under Table 28, it shows majority respondents were of the view that it will either have a negative or zero impact on South Africa, with a small number being of the view that it will have a positive impact on the South African distressed market.

Respondents who believed it will have a negative impact said that the pool of foreign capital will shrink, as the new US administration will now be more focussed on inward-looking investment, as well as the fact of the South African downgrade to junk status impacting the sovereign risk making it riskier to invest. Other respondents also further commented that the South African market is too far off the US radar and due to Africa being a risky profile in general, the US would much rather invest in the South American distressed market.

An interesting observation was some respondents were however of the view that the focus of inward investment into US by the new US administration is actually going to have a converse effect and could lead to more investors rather taking their money out of US, and rather hedge their risks in SA where cheap and valuable assets are available.

Based on the literature presented in chapter two, the negative impact mentioned by respondents supported the literature by Van Heerden (2017), who believes that the new administration of the United States will negatively impact the flow of foreign direct investment into South Africa. Van Heerden (2017), stated that the US will now have a more inward-looking investment approach and moving toward a greater protectionism economy by focussing on local inward investment as opposed to outward foreign.

The researcher could however not find any relevant literature at the time of the study to support the positive impact that was mentioned by respondents on the new US administration.

Impact of Junk Status

Looking at the findings under Table 29 in chapter five, on the impact Junk status will have on foreign investors towards the South African distressed and Business Rescue market, majority respondents were of the view that it will have a complete negative impact with no additional upside. This is mainly due to disinvestment from the larger institutionalized investors and higher lending rates that will now occur.

Some respondents were however of the view that it will in a sense, despite large disinvestments from institutional investors, have a positive impact on the South African market, as the distressed and Business Rescue industry can now develop faster. This can further lead to opportunities for the South African distressed industry to become more creative in a sense that it will open up doors to attract different types of investors that can fill the gaps that could be left by the larger institutional investors.

Negative Impacts of Junk Status

These respondents exclaimed that the negative impact comes from the large pool of investors now withdrawing investments out of South Africa including institutionalized investors such as large pension funds, development financial institutions and certain banks who are not allowed to invest in such countries because of the risk involved.

The other negative impact is that the development financial institutions in South Africa that used to mostly survive on government grants and investments will now have to create their own value and if downgraded to Junk status they are still reliant on foreign loans and grants. This becomes an issue as suddenly the money will now need to be borrowed at higher rates because of the amount of risk involved.

Positive Impacts of Junk Status

Looking at the findings presented in chapter five, some respondents were of the view that irrespective of the large disinvestment from institutionalised investors that will take place, junk status can actually have a positive impact on the South African distressed market. This includes opportunities such as new types of investors entering the South African distressed market as well as more cheap assets becoming available and faster development of the local distressed market.

Based on the results presented in chapter five regarding the impact of junk status, the findings therefore support literature reviewed and presented in chapter two on foreign investors decisions regarding investment following the recent downgrade in credit ratings. Van Heerden (2017), stated that the recent downgrade to Junk Status of the South African credit ratings could negatively impact foreign investors decision, as they will be more cautious and see investment into South Africa as costly and of greater risk due to the current economic and political instability (Deloitte, 2017; CFO, 2017).

Due to the downgrade being a very recent event that only took place in 2017 in the South African economy, the researcher could not source any relevant literature at the time of the study to support the impacts Junk status could potentially have on the local distressed industry, apart from the data collected from the industry experts.

In conclusion, due to these three local and global developments being very recent taking place as early as 2016 and 2017, little to no relevant literature was available at the time of the study to determine what real impact, positive or negative, it will have on future decisions of foreign investors to invest in the South African distressed market. The literature that was however available on these three events have extensively been reviewed and aligned with the findings of chapter five and presented in this chapter. The literature that was reviewed seems to rejects the results of the data collected from the respondents and therefore leans towards rejecting proposition six.

6.8 Conclusion

Valuable insights were effectively garnered from thirteen interviewees, who are all experts in the field of the distressed and Business Rescue industry, regarding the availability of local distressed funding and the opportunity of looking to attract foreign investors to buyout these distressed companies. The data gathered and the results uncovered brought both richness and new perspective for the researcher on the distressed and Business Rescue industry in South Africa.

The results furthermore support both the existing literature, as well as the unearthing of new insights and unique findings developed during the process that contributed to understanding how the value of a distressed company under the formal process of Business Rescue is determined. This was further used to understand what is perceived as valuable in order to attract foreign investors to buyout these distressed companies. This was to serve as alternative means of distressed funding as currently the availability of local distressed funding in South African appears to be limited.

The overall outcome of the results showed that not only is local funding for distressed companies currently limited, but also further presented the many factors involved in both the distressed and Business Rescue industry, as well as the economic environment, that currently impacts funding both locally and internationally.

The current local industry players who are currently seen as being the local distressed funders were also identified. These industry players were summarized as the existing banks already in it, niche Private Equity funders operating as distressed investors, current shareholders of the company, wealthy individuals, development financial institutions and third-party acquirers.

The reasons why funding is currently limited for companies under Business Rescue as well as the factors that impact distressed funding were discussed in this chapter which includes the following: lack of maturity of the Business Rescue industry, lack of proper financial records, lack of clarity on rankings, lack of trust in the Business Rescue system, lack of security.

Other factors that also currently impacts funding for distressed companies in South Africa, from both a local and foreign perspective is the uncertain market conditions pertaining to the sovereign risk and the findings that that were presented discussed in both the global and local arena regarding the South African downgrade to Junk status as well as the uncertainties currently in both the UK and US markets. Each of the six propositions were individually tested and generally supported by the data collected, with the exception of proposition two, four and six that had notable additional and contradictory views from the data collected.

Lastly, the data collected largely supported the literature on both the current funders in the distressed industry are as well as what the current limitations is in the Business Rescue industry. The data did however add to the available literature by extending on the reasons why distressed funding for companies under Business is currently limited and addressed what needs to be done in order to create better opportunities to attract more investors, either local or foreign, to buyout these distressed companies.

CHAPTER 7: CONCLUSSION

7.1 Introduction

The research findings discussed in chapter 6 were in context with the existing literature available on the distressed and Business Rescue industry. This chapter provides a brief review of the research problem and the objectives identified set at the beginning of the project. The objective of the study was to establish if there is an opportunity to attract foreign investors to buyout companies who have entered the formal process of Business Rescue, based on the value these companies can offer foreign investors.

Following this, the summaries of the main findings, as well as presenting in Figure 1 the framework of stimulating investment into the Business Rescue industry. The framework presents the final result of the findings gathered from respondents during the data collection process, as presented and discussed in Chapter 5 and Chapter 6 regarding stimulating future investment into the Business Rescue industry.

The chapter closes off by outlining recommendations to businesses, financiers, practitioners, government and future investors in which the limitations of the research are considered, implications, as well as a discussion on recommendations for future research, followed by concluding on the research report.

7.2 Research background and objectives

Due to increasing pressure being caused by the volatile market conditions of the South African economy, continual strain is being placed on local companies; which forces many of them into a situation of being unable to meet financial obligations and resulting them either ending up distressed or liquidated (Maswanganyi, 2016; Naidoo, 2016; Writer, 2014). Based on this growing concern, the Companies Act 71 of 2008 was established, and it provided a protocol named “Business Rescue” (Chapter 6 of the Companies Act 71 of 2008), which was formally recognised on the 1st of May 2011 (Levenstein, Krige, Nott, Barnett & Chen, R, 2014; Bradstreet, 2013).

The Business Rescue protocol was established to assist distressed companies entering this formal process by implementing a rescue plan with the ultimate attempt, where possible, to turn the company back into a going concern with the assistance of a Business Rescue practitioner (Pretorius & Rosslyn-Smith 2015; Jijana et al., 2015)

Based on the current landscape of the South African distressed industry, especially for companies who have already filed for Business Rescue, distressed funding is currently very limited and due to the inability of the distressed company to successfully gain access to funds, it led to its eventual failure.

Based upon existing literature reviewed from Jijana et al., (2015), among some of the literature pertaining to this, the research problem identified was that local distressed funding for companies under Business Rescue is still perceived as limited, which was further supported by recent research done by Mkhondo & Pretorius (2017). An investigation was therefore required in order to determine why both local and foreign distressed funding in South Africa, especially for companies under Business Rescue is still perceived as limited.

The objective of this research report was to further explore and understand who the current pool of local funders is as well as what limitations there are currently in the distressed industry restricting investors to extend funds or invest into distressed companies. Based upon the outcome of these findings, the aim was then to ultimately establish whether foreign investors are interested in the South African distressed market and if there is an opportunity to attract these foreign investors to buyout distressed companies under Business Rescue. The principal findings are summarized and presented in the following section.

7.3 Principal findings

In-depth interviews were conducted with 13 industry experts, consisting of specialist rescue and turnaround practitioners, as well as financiers. This specific focused sample of industry experts were selected and interviewed in order to test the six propositions that were derived, along with the interview questions, from the literature reviewed and presented in Chapter 2. The presented literature served as a foundation that preceded and integrated the research findings with the discovery of new understanding and knowledge throughout the data collection process by way of interviews.

Majority of the findings discussed in Chapter 6 are consistent with the current available literature. Although most were consistent, the study elaborates on the subject matter and contributes to the overall academic theory base by providing insights on the key dynamics and complexities currently facing the local distressed and Business Rescue industry, as well as the availability of local distressed finding.

All of the interviewee participants stated during the data collection process that current access to distressed funding in the local South African market is very limited for companies in distress and even more so for those who have entered the formal process of Business Rescue. This was concerning, especially when considering the fact that funding is seen to be the main determinant to a successful turnaround for any distressed company, whether in a formal process such as Business Rescue or an informal turnaround process outside of Business Rescue.

The unique findings broadly discussed below provide reasons why access to distressed funding is limited and who the current providers of distressed funds are. Followed by the initiatives and critical implementations to be created or altered in order to improve future access to funding for companies under Business Rescue. Closing with the perception on the ability to attract foreign investors to buyout distressed companies with the main focus being on companies under Business Rescue and the surrounding elements on this.

7.3.1 Current local distressed funders: Availability, limitations and critical requirements for improved future access to funds

The initial contribution to the study recites around elements that contributes to the limited availability of distressed funds and what needs to be done in order to improve future availability of funds. Although most elements received sufficient attention in the literature, further attention is required however the general findings of the interviews serve as an all-inclusive theme that is rich in nature.

The topical messages emerging from the research findings asserts that there is compelling evidence to suggest that the availability of local distressed funding is still very limited, especially for companies already in the formal process of Business Rescue. As Business Rescue is seen as the final stage before being liquidated and no real time or security remains left to effectively gain access to sufficient funds. Factors mentioned that are critical to successfully gain access to funds is firstly to have security left in the form of free assets and also to have proper historical audited financial records. In a lot of cases distressed companies do not have this available or in place.

Looking at Business Rescue in general, elements hindering funders to extend additional funds is the lack of maturity of the industry relating back to the lack of some form of proven track record of past successes. This is followed by the general lack of confidence in the Business Rescue system which includes the lack of trust in the Business Rescue Practitioner and lastly the clarity on the Act regarding rankings if additional funds are extended. A critical element mentioned is the screening process and regulation of Business Rescue practitioners in the system. If proper regulation is done on Business

Rescue practitioners, it will create a greater sense of trust and comfort amongst banks and other potential funders and improve their willingness to extend funds.

In order for a distressed company to improve its chances of gaining access to funds it must start identifying distress earlier and initiate a turnaround attempt as soon as possible, even while still in an informal distress to try and avoid entering Business Rescue. This will provide the company with even more time and options available and would be better to do whilst still not in a formal process such as Business Rescue.

Future initiatives raised in the findings is to look at potentially providing the companies under Business Rescue with either some form of tax relief or tax break if a certain percentage of jobs can be preserved or to give temporary relief until the company stabilizes and can operate as normal.

All these elements presented gives rise to why access to distressed funding is limited and what needs to be done in order to improve future chances of gaining access to funds for distressed companies.

7.3.2 Foreign investors interest towards the South African distressed and Business Rescue market

The next contribution to this study relates to the interest of foreign investors in the South African distressed market. Majority findings shows that there is definitely an increase in awareness being seen coming from foreign investors. The main increased interest and awareness seemed to come from China, America and Europe (including UK). The interest area of focus also seemed to be mainly towards mineral and resources, as well as in the retail space.

The point of concern however raised was although awareness has increased, little to no real foreign deals have successfully concluded, especially not when it comes to companies who are already under Business Rescue.

Further elements raised as to why no real successful conclusion of foreign deals to date for companies under Business Rescue was mostly with regards to either the extent in the South African sovereign risk or foreign investors not yet fully understanding how Business Rescue works and what it entails. The risk therefore is perceived as being too high.

Conversely, a very interesting point raised was the more aggressive and increased appetite that has been observed from local investors who are starting to penetrate the distressed market.

7.3.3 Discounted value of distressed companies and other factors leading to increased appetite for foreign investors

The third contributing factor raised was that of the discounted buyout value and the impact on the interest and awareness to foreign investors. Majority of the findings in the study suggested that the discounted value definitely adds to the appeal towards foreign distressed investors towards the South African market. It was however interesting to note as mentioned in the findings that even if the asset was not deeply discounted, the motivation for foreign investor might be purely strategic and they are even willing to put more money into the company as they are looking for a specific asset or skill.

Other main factors raised regarding why foreign investors seek to enter the South African distressed market was either foreign investors want access to a specific industry, serves as a gateway to other African markets or the speed of gaining access to the market due to the already established networks, customer base and infrastructure making it valuable.

Unfortunately, as a direct result of the sovereign risk involved and the level of uncertainty surrounding the Business Rescue Act, it limits the willingness of a foreign investor to enter and invest in the South African distressed market.

7.3.4 Buyouts of distressed companies by foreign investors and impact on the Business Rescue industry and stakeholders involved

The next contributing factor relates to the findings on what impact a buyout by a foreign investor will have on the Business Rescue industry, as well as the stakeholders involved. Interesting to note was the positive impact it could have if successful as it will increase investment, as it will add competition not just among foreign investors but also local investors who might feel they are losing out on valuable opportunities.

The concern however as raised earlier is that their factors involved such as the sovereign risk which includes currency and political risk that can hinder foreign investors from entering the distressed market. This however can create more opportunity for local investors to further increase their appetite towards the distressed market.

The general feeling regarding impact on distressed stakeholders is that it does not really matter if it is foreign or local money, just as long as creditors get the most value. It was however interesting to note some elements were raised that creditors would actually prefer dealing with local than foreign investors due to trusting local investors more as they might have a standing relationship or better know how of the market and the specific industry than foreign investors might have.

7.3.5 Opportunities and threats to foreign investors for companies under Business Rescue and the impact of the macroeconomic environment

The fifth contribution significant in the research study that will impact foreign investors interest into the South African distressed market, especially for companies under Business Rescue is the opportunity and threats these companies can pose, as well as impact from the Macroeconomic environment.

Evidently the protection of the moratorium was the main element raised that will serve as the greatest opportune factor to attract foreign investors were they to consider buying out a company under Business Rescue. Further elements mentioned is the approved and already implement Business Rescue plan, as well as the certainty of claims as this provides comfort for investors regarding what and who they are dealing with. Further elements mentioned was the deeply discounted assets that companies under Business Rescue offers investors.

Conversely in terms of threats, the main issue was the lack of proper financial information as stated earlier in the first contribution, as well as the uncertainty in the Act and inexperienced Business Rescue practitioner. A very interesting and critical point of concern that was raised was the fact that a company that has entered Business Rescue might have a sense of stigma attached which could lead to a loss in customers.

The factors of concern also previously raised, is the sovereign risk in South Africa as the main concern that further leads to impacting the ease of doing business in the country. Other main factors of concern raised that will impact foreign investors decision, is the labour law, as well as the cost of labour.

7.3.6 Impact of Brexit, new US administration and Junk status on the South African distressed market.

The final and crucially important contributing factor of the study raised was the findings on the impact of three recent developments between the year 2016 to 2017, namely Brexit; new US administration and the downgrade to junk status in South Africa. Evidently the majority of the findings showed on both global developments, Brexit and the new US administration, that it will mostly either have a negative impact on the South African economy or no impact at all, as the US and the UK have their own market dynamics to deal with. As stated in the findings, the South African distressed market is also seen as being too small and not even on the investment radar of the US.

The point of concern was that it further also shrinks the already limited available pool of investors and funds as the US will now be more inward looking when it comes to their investment approach and the UK will also most likely disinvest following Brexit. The recent downgrade in the South African credit ratings to Junk status will also negatively impact foreign investors when considering investment in South Africa, due to the added sovereign risk involved.

Conversely some points of interest mentioned was that the impact of Junk status and the two global developments could potentially lead to more opportunity towards the South African distressed market. The opportunities being that more aggressive investors can now enter the market, which can further lead to speeding up the development of the local distressed industry and funding market.

7.4 Recommendations for Management and Stakeholders

The summarized results of the findings provide valuable insights to business managers, financiers, practitioners, government and future distressed investors who are either currently operating in or looking to operate in the Business Rescue or local distressed industry.

The recommendations are made on the basis of what has been observed in the current distressed and Business Rescue industry regarding what is required and works well and also adding additional recommendations that has been identified as new.

Stakeholder recommendations are further divided into recommendations for distressed business managers, financiers, Business Rescue practitioners, government institutions as well as future distressed investors connected with Business Rescue.

7.4.1 Distressed business management

Some key recommendations that emerged for distressed business management was to start identifying and admitting distress much earlier on and not leaving it until it is almost too late and needs to enter the formal process of Business Rescue. The sooner a turnaround process can be initiated, whether in an informal or formal process, the better chance the distressed company has of survival as more time, options and resources are available.

Other critical recommendations are to build trusting relationships from the start with all stakeholders involved especially with the main creditors involved, trade creditors as well as customers. Distressed business management need to engage with these key stakeholders early on if any form of distress is being detected and present to them their current state of affairs. This adds credibility to the company and provides comfort to creditors, suppliers and customers, as they will perceive the company as being open and transparent regarding their state of business affairs.

Based on this, they will therefore be more willing to trust and be more lenient towards assisting the company if in a distressed situation. Conversely however, if creditors have to come knocking on the door of a distressed company to collect on defaulting and outstanding payments they will perceive the company as being untrustworthy and trying to hide something.

7.4.2 Business rescue and turnaround practitioners

Practitioners play a vital role when it comes to their appointment to take on a specialized role in a specific industry. Crucial recommendations for them is to immediately build a great level of trust with all relevant stakeholders involved. Open communication is seen to be one of the most important functions of the practitioner and as such, the plan and every decision made or to be made that could impact the future outcome of the distressed company must be communicated and include all affected parties involved (Burke-le Roux & Pretorius, 2017).

As the distressed industry in South Africa and the Business Rescue market regarding the availability of distressed funds is seen as underdeveloped and new, it is key for practitioners to go out and market the Business Rescue process more and to publish past successes. Rescue and turnaround practitioners should also engage more globally by creating international forums on a global stage to market the Business Rescue process, publish past successes and sell the available distressed asset and company propositions. Practitioners can further utilize this forum to market and present available opportunities to buyout distressed assets in SA and build consolidated global networks that can cultivate and increase more interest among foreign investors towards the local distress and Business Rescue market.

7.4.3 Financiers

Financiers in any distressed situation are seen to be one of the most critical elements that can either lead to the survival and success of the company or its decline and failure. Key recommendations to them is therefore to support existing companies throughout their relationship process. Financiers supporting the company can assist in detecting when any early warning signs start to appear of potential future distress due to a pattern of delayed payments showing or completely defaulting on payments.

In doing this, financiers can assist these companies before the level of distress becomes too severe and little to none options remain available, as the earlier the distress is detected, the more time, options and resources the company will have access to. Depending then on the severity of the level of distress, financiers can further advise the potentially distressed company by giving them either temporary relief on payments or suggest reputable turnaround or Business Rescue practitioners to assist.

7.4.4 Government

As the formal process of Business Rescue is still perceived as relatively new, many uncertainties in the Act and elements surrounding the current Business Rescue system brings about concerns amongst various stakeholders. The potential investor or extender of funds seems to be one of the main stakeholders to be affected by these concerns, as they ultimately need to make the final decision on whether or not to invest or extend funds.

Areas of concerns that arose among respondents were the clarity in the Act regarding the rankings of additionally extended distressed funds, courts systems being too slow, lack of trust in Business Rescue practitioner and the lack of confidence in the Business Rescue system.

Recommendations are to clarify the Act regarding rankings of funds, potentially look at implementing a specialized type of Business Rescue or commercial court attending only to distressed and commercial cases. A stricter screening and regulation process to be implemented on Business Rescue practitioners and lastly introducing and improving education on Business Rescue towards students, current business management, as well as distressed investors.

7.4.5 Future Investors

As both the informal distressed industry and the Business Rescue industry is respectively seen as underdeveloped and still relatively new, there are many opportunities that can be created in the South African distressed arena.

Key recommendations to future investors, especially those looking at the distressed arena, would be to create networks and build relationships with reputable Business rescue and turnaround practitioners, attorneys specializing in the distressed industry, as well as financiers. This will assist future distressed investors by providing them with better information and the ability to easily identify valuable distressed companies or assets that are available to buyout or invest in, especially if it comes from reputable Business Rescue and turnaround practitioners, attorneys and financiers. This will conversely not only be beneficial to the distressed investor, but also be beneficial to the distressed company or any of the aforementioned stakeholders as it provides them with more available options to assist the distressed company when it comes to funding.

7.5 Proposed Framework: Stimulating Investment into the Business Rescue Industry

The framework presented in Figure 1, illustrates factors that can both stimulate and impact, positively and negatively, distressed investment into the Business Rescue industry. This framework can be utilized in future by distressed industry experts, business management as well as academics when considering the probability of attracting future distressed investors to invest and buyout these distressed companies.

Figure 1: Framework for stimulating Investment into the Business Rescue industry (own compilation)

Factors impacting distressed investment into the Business Rescue industry	Incentives	Deterrents
Internal	Protection of the Moratorium	Lack of clarity and confidence in the Business Rescue system
	Approved and implemented Business Rescue plan	Lack of audited financial records and availability of free-assets of distressed companies
	Availability of deep discounted Assets	Stigma attached leading to a loss of future customers
External	Access to specific industries in South Africa	Sovereign Risk
	Gateway to Africa	Size of local distressed market too small
	Speed to market entry due to established network	Local labour law too stringent and cost of labour high

Based on Figure 1 and the opportunities identified in Chapter 5 regarding attracting more foreign investors into the Business Rescue process, the model can further be developed by incorporating these opportune factors identified that could improve buy-in from foreign investors. These opportune factors include creating international forums and building global consolidated networks where these international platforms are then utilized to market the Business Rescue process, publish past successes and present available distressed assets.

7.6 Limitations of the research

As the nature of the research study was qualitative, the data collected from the interviewees and the findings presented in Chapter 5 should purely be viewed as expert opinions and not factually correct, as qualitative research is very subjective in nature (Saunders & Lewis, 2012; Zikmund et al., 2013). In order for these research findings to be tested and deemed as factual, quantitative research will have to be conducted.

Further limitations identified to be considered are as follows:

- Researcher who conducted the interviews was not expertly trained in the field of interviewing and based on this, many forms of biases might occur (Agee, 2009).
- The sample selected by the researcher consisted of only industry experts locally based in South Africa and therefore expressed their views and opinions from a local background. While these experts have a wealth of knowledge and experience in their respective fields, a deep understanding and awareness of the local and global market conditions, the collected data still does not present the expressed views from foreign investors, which can cause biased results.
- The sample further only consisted of Business Rescue and turnaround practitioners, financiers and advisors, who are all industry experts, however no individuals such as distressed business management that previously endured a restructuring process or exited by means of a distressed sale were included. This therefore could lead to some expressed views and findings being biased.
- Another key limitation is the fact that the sample consisted of only a focused and limited number of experts who are geographically situated only in the Gauteng and Western Cape province and this can lead to some research findings being seen as prejudiced.

It is important to note that this study was purely conducted to explore and understand what the current landscape on the availability of distressed funding is in the South African distressed industry and Business Rescue market and to establish what opportunities are available pertaining to distressed company buyouts. Based on this, any theoretical findings or framework presented in this research study is purely descriptive in nature.

This study did not seek to test any form of constructs against prevailing outcomes, nor to provide a structured design on how to successfully attract distressed investors to buyout distressed companies under Business Rescue. This research rather aimed to present a simple description of what the current situation is regarding the availability of local distressed funding for companies under Business Rescue and what the available opportunities are. For a structured design that would offer verified guidelines and proven recommendations, a formal explanatory research study would need to be conducted to obtain fundamental links between specific actions, behaviours or decisions, in order for certain outcomes to surface.

Based on the discussion of the results, a series of questions for future research surfaced which are summarised in the following section.

7.7 Suggestions for Future Research

As the research topic was deemed new, the research design chosen was that of qualitative and exploratory in nature. This research therefore focused only on identifying and building on theory rather than seeking to test it. There was therefore no empirical evidence that shows how the value of a company under Business Rescue affects the ability to attract foreign investors to buyout these distressed companies.

The following suggestions for future research would significantly add value to the existing literature and academic base:

- Research to be done on looking at the possibility of at rather pursuing the avenue of buying out companies who are still in an informal turnaround process versus those that are already under the formal process of Business Rescue and the advantages and disadvantages of it.
- There is a great need for research to be done on the clarification of the Business Rescue Act regarding the extension of distressed funds and the buyout of distressed assets and companies and how it fits in the Act
- Further research is also required as to what impact, positive or negative, buyouts or investment by foreign distressed investors will have on the local community and how to regulate it in order to ensure that both the local community and local economy benefits from the investment
- The opportunity to rather look at attracting local investors to buyout distressed companies than looking at foreign investors

- The opportunity of establishing an international forum that serves as a platform for Business Rescue practitioners to enter the global stage and market the Business Rescue process and publicize success stories in order to create more awareness
- Further research needs to be done in order to see how government can become more involved in the Business Rescue system in order to provide some form of relief or incentives that can save jobs and increase productivity as well as ensure future economic growth.

7.8 Conclusion

Local and global economic climates can instantly change and can severely impact businesses in any given country leaving them with disastrous lasting affect not only on the business and its stakeholders, but also the economy of the local country. These impacts can leave companies in a situation whereby they can end up either being distressed and if not successful in an informal restructuring process they can find themselves being liquidated. Should this extremity indeed occur it will have a negative impact on the local economy.

Based on this concern and looking at the volatile market conditions, South Africa has developed a formal process called “Business Rescue” to assist companies who are in distress in order to either turn them around into a going concern or at least create better returns for creditors as opposed to immediate liquidation.

The literature reviewed shows that Business Rescue if correctly implemented can be greatly beneficial to all stakeholders involved in the distressed company. One of the main areas of concern however found in both early literature as well as the most recent literature is that the level of availability of local distressed funds still appears to be very limited. This was further confirmed by all 13 industry experts interviewed on this subject matter in the research study of availability of local distressed funds.

The objective and aim of this research study was to explore if an opportunity exists to rather look at attracting foreign investors to buyout these companies under Business Rescue based on how foreign investors would put value on such a distressed company. Increased opportunity and awareness is indeed seen from foreign investors into the South African distressed market over the years.

It will however be difficult and naive to confirm based on the research findings of this study and considering current market conditions that foreign investors will now, more than ever, invest or buyout South African companies who are under Business Rescue.

There however seems to be a greater prospect to rather look at attracting or motivating local investors to start developing companies/funds that can invest in or buyout distressed companies.

Currently both the South African distressed market and the Business Rescue Act is underdeveloped and new, creating therefore a gap for many local players, especially those already exposed to distressed market to start initiating and developing opportunities for distressed investing or buyouts.

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APPENDICES

APPENDIX 1: INVITATION TO PARTICIPATE IN RESEARCH STUDY (Owens, 2015)

Dear XXXXX

Thank you for taking my telephone call earlier today. As discussed, I am completing an MBA at the Gordon Institute of Business Science and I am in the process of completing the compulsory research thesis component of the degree. My research project title is 'Valuing Companies under Business Rescue to Attract Foreign Investment'. I believe that you have the necessary expertise and experience needed to provide key insights into this area of study. I would greatly appreciate your participation in this research by agreeing to be interviewed on the subject matter. The interview will be a semi-structured in-depth interview and will last approximately 45 minutes to 60 minutes. I plan to conduct the interviews during the months of June to August. Please find attached a copy of the consent form that you will sign prior to the interview commencing. Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential

The propositions I aim to confirm through this research process are as follows:

- Locally, distressed funding for companies under Business Rescue is currently limited
- Foreign investors are increasingly becoming aware of valuable distressed assets available in South Africa
- The discounted value at which distressed companies in South Africa can be bought at increases the appeal and attractiveness to foreign investors
- Foreign investors buying out distressed companies will yield a better return for creditors and increase the success rate of Business Rescue
- The protection of the moratorium of companies under Business Rescue and the amount of debt the company under Business Rescue owes creditors will impact foreign investors' view of the value and attractiveness of the buyout
- Global and local economic developments will positively impact foreign investors' investment decision and bring new opportunities for foreign investors into the Business Rescue Market

Please can you confirm your agreement to take part, as per our telephone conversation and indicate your availability to be interviewed during the months of June to August 2017.

I look forward to hearing from you.

Kind regards

Dirk Cornelius Britz

dirkcbritz@gmail.com

APPENDIX 2: LETTER OF CONSENT (Du Preez, 2012)

Informed Consent Letter

I am conducting research towards my Masters of Business Administration ('MBA') at the Gordon Institute of Business Science ('GIBS') on Valuing Companies under Business Rescue to attract Foreign Investment. All participants will be asked to share their insights and experience on the topic, in light of their expert opinion. All data collected via the interview process and any documents received from you will be treated in the strictest of confidence and all reporting of any findings will be done without identifiers. To this end, you are kindly requested to provide sincere and detailed responses in the interview to enhance the quality of the data. This will help us better understand the dynamics at play in the context of valuing companies under Business Rescue to attract foreign investment and therefore add to the theory base as well as the understanding of the practice in this relatively new industry. Our interview is expected to last approximately 45 minutes to 60 minutes, and will enrich Business practitioners, scholars and any interested party to understand the nature and extent of valuing Companies under Business Rescue, as well as the prerequisites for success to attract foreign investment. Kindly please take note that a recorder will also be used during the interview. Your participation in this study is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below:

Researcher name:	**Supervisor name:**
Name : Dirk Cornelius Britz	Name : Wanya Du Preez
Email : dirkcbritz@gmail.com	Email : wanyalabuschagne@gmail.com
Mobile : 082 494 0926	Mobile : 083 272 0892

Signature_________________Date________

Interviewee/Participant Details

Name :

Email :

Phone :

Signature ________________Date ________

Note: Discussion Guide

A discussion guide is intended as an outline only. There will be considerable scope within the discussion for exploring issues as they arise.

APPENDIX 3: INTERVIEW SCHEDULE (Du Preez, 2012)

Type of study: Qualitative (Exploratory) and Semi-structured

Instrument: Note Pad, Voice recorder

Interview guide format: Flexible depending on the course of the conversation, follow-up and new questions raised.

PREPARATION BEFORE THE INTERVIEW

Before the interview, the interviewer should prepare or plan for the following:

- Be punctual, courteous and explain the administrative requirements i.e. recording of the interviews
- A suitable and convenient location should be used - choose a setting with least distractions
- Start the conversation by discussing elements of mutual interest and building rapport e.g. state of the economy, industry and competitiveness of industry.
- Reading about the experts' background information, company activities and topical issues in the industry.
- Preparing for "warm up" questions to foster a relaxed and cordial atmosphere.

WARM UP AND BACKGROUND

- Ensure you spend some time building rapport initially.
- Ask good questions and interpret the answers.
- Be a good and attentive listener - Avoid being trapped by own ideologies or preconceptions.
- Be adaptive and flexible.
- Be aware of body language.
- Have firm grasp of the issues being studied.
- Remain neutral - be unbiased by preconceived notions, including those derived from theory.
- Ask what the person would do in an actual situation, rather than in a hypothetical one.

- Do not put words in their mouth.
- Responses should be recorded verbatim.
- Don not react to what the person tells you.
- Always treat their responses as perceptions, not fact.
- Ensure that you test your own understanding and to sharpen the focus of vague comments.

1. Introduction

Hello my name is Dirk Cornelius Britz and I am conducting this interview in partial fulfilment of my Masters of Business Administration degree at the Gordon Institute of Business Science.

1.1 Purpose of interview: discuss the purpose of the interview -

Learning the respondents' viewpoint regarding situations relevant to the broader research problem: The purpose of the interview is to solicit expert opinions from senior Business Rescue Practitioners and other Industry experts, in an effort to obtain an understanding of the current nature and extent of Valuing companies under Business rescue to attract foreign investment.

The purpose of this interview I am seeking to ascertain is (i.e. nature and extent) how to Value companies under Business rescue in order to attract foreign investors to buyout these companies.

You have been asked to participate in this interview because of your role as a Business rescue practitioner / Industry expert in __________ organisation and you are therefore considered an expert within this field.

1.2 Interview administration

- Explain the format of the interview.
- Indicate how long the interview usually takes.
- Provide contact information of the interviewer.
- Ensure that the respondent consents to the interview being conducted and signs a consent form.

- Seek further consent from the respondent to record the interview for transcription records.
- Allow interviewee to clarify any doubts about the interview.
- Prepare a method for recording data, e.g., take notes and setting up recorder.
- Discuss and agree on terms of what will be done with data from the interview.
- Explain process of data collection and analysis.

This interview should take approximately 45 - 60 minutes. Please answer the questions to the best of your ability.

As you read in the informed consent form, your responses will be kept confidential and you will never be identified by name or role when we report the results of these interviews, your responses will also be recorded. You are free to stop participating or withdraw at any time. Let me know if you would like to skip a question for any reason.

Are you comfortable with the fact that I am recording the interview?

May I start the interview now?

[Start Recording]

2. Interview Guide

[During the interview:

- **Record observations of a non-verbal nature to supplement and contextualise the recordings on the audiotape.**
- **The format of the interview is semi-structured with some pre-planned questions below, while allowing for a natural free flow of conversation and questions.**
- **Seek understanding and interpretation of what was heard.**
- **Search for a deeper understanding and clarity from the respondent throughout the interview.**
- **Encourage responses.]**

The research propositions and exploratory questions which need to be addressed in the interview are as follows:

Research Propositions	**Exploratory Questions**
• **Proposition #1:** Locally, distressed funding for companies under Business Rescue is currently limited	• In your experience, who are generally the local distressed funders? • Do you believe local distressed funding for companies under Business Rescue is currently limited and if yes, why? • What can the Business Rescue industry do to attract more local funding? • What other new initiatives do you believe will begin to arise locally in the future to assist companies under Business Rescue?
• **Proposition #2:** Foreign investors are increasingly becoming aware of valuable distressed assets available in South Africa	• Do you believe foreign investors have turned their sights to the South African distressed market? If yes/no; why/why not? • In your experience, who are the foreign investors, where are they from and which specific industry do you feel they are targeting? • What can the distressed industry do to attract more foreign investors to buyout companies under Business Rescue? • What impact do you feel will this have on the overall South African economy?
• **Proposition #3:** The discounted value at which distressed companies in South Africa can be bought at increases the appeal and attractiveness to foreign investors	• Do you feel that the discounted value of a companies in distress is the main factor that impacts its attractiveness to foreign investors? Why/How? • What other factors will make a distressed company in SA more or less attractive for foreign investors? Why? • How will the buyout value of a distressed company generally be determined?

• **Proposition #4:** Foreign investors buying out distressed companies will yield a better return for creditors and increase the success rate of Business Rescue	• How will the buyout of a distressed company by a foreign investor impact the distressed industry and Business Rescue market and all its relevant stakeholders? • What impact, if any, do you feel will a buyout by foreign investors have on creditors versus a buyout by local investors? • Do you believe it will increase the success rate of Business Rescue? And if yes, how?
• **Proposition #5:** The protection of the moratorium of companies under Business Rescue and the amount of debt the company under Business Rescue owes creditors will impact foreign investors' view of the value and attractiveness of the buyout	• What are the opportunities involved for foreign investors when looking at buying out companies under Business Rescue in South Africa? • In your opinion, what threats do you believe companies under Business Rescue have that will make foreign investors rather consider not to buyout companies under Business Rescue? • What other factors in the SA macroenvironment do you feel will impact foreign investors' decision when considering a buyout of a distressed company?
• **Proposition #6:** Global and local economic developments will positively impact foreign investors' investment decision and bring new opportunities for foreign investors into the Business Rescue Market	• How will the three recent economic developments affect foreign investment specifically in the Business Rescue Industry? (i.e. new US administration, Brexit, recent downgrade to Junk status) • What new investment opportunities do you feel might arise for foreign investors following these recent events, especially in the distressed industry? • What can the distressed industry do to further attract foreign Investment?

Continually verify that the recorder is still working]

3. Closing questions

a) Do you believe there are any other factors which may influence the attraction of foreign investment for a distressed company?

b) Are there any individuals you can refer me to interview in this regard?

c) In your opinion did I leave out any important topics?

d) Do you have any additional questions for me?

e) What do you believe is the future of Foreign Investment for Companies under Business Rescue?

[Stop Recording]

4. Post-interview procedure

a) Verify if the tape recorder, if used, worked throughout the interview.

b) Write down any observations and reflections made during the interview (include views and feelings immediately post the interview).

c) Send e-mail to thank respondent for their time.

d) Establish permission to contact the respondent for clarification and further information sharing should this be required.

e) Make contact with individual the respondent has referred you to (as per 3b).

5. Post-interview notes

a) Make a backup of the recording.

b) Detail emerging themes from interview

c) Review "depth" of interview from a data collection perspective

APPENDIX 4: POST-INTERVIEW NOTE OF APPRECIATION (Du Preez, 2012)

Dear XXXXX

Thank you so much for your time yesterday and all the valuable insights you provided me with during our interview, I sincerely appreciate it.

As mentioned, there could be a possibility I have a few additional questions I might need to ask in the near future, if that will be ok with you?

Also, do you perhaps please have any additional literature you would not mind sharing with me or know of a credible source where I might find some more information on valuing companies under Business Rescue?

Please feel free to contact me at any time should you perhaps have questions from your side.

Kind Regards,

Corne Britz

Mobile: 082 494 0926

dirkcbritz@gmail.com

Appendix 5: Participants Interviewed

Participant name	Company	Position	Nature of responsibility
1. Anthony Evens	ABSA Capital	Head Credit Restructuring & Advisory	Financier
2. Bruce Berry	DBSA	Manager: Business Support and Recovery Unit	Financier
3. Gerhard Albertyn	ABSA	VP: Credit Restructuring and Advisory	Financier
4. Ja'Nel Esterhuysen	Standard Chartered Bank	Regional Head, GSAM, Southern Africa	Financier
5. Jo-Anne Marais	ABSA	Credit restructuring & Business Support	Financier
6. Martin Leigh	Standard Chartered Bank	Head, GSAM, Africa	Financier
7. Dr Eric Levenstein	Werksmans	Partner	Attorney specialising in Business rescue, Restructuring and Insolvency
8. Alison Timme	PWC	Associate Director	Business rescue practitioner
9. Daniel Terblanche	Deloitte	Associate Director: Corporate Finance & Restructuring Services	Business rescue practitioner
10. Keith Fairhurst	Unleash Consulting	Shareholder	Business rescue practitioner
11. Leslie Matuson	Matuson & Associates	Shareholder	Business rescue practitioner
12. Peter Van Den Steen	V-Squared	Shareholder	Business rescue practitioner
13. Trevor Murgatroyd	TM Restructuring	Director	Business rescue practitioner