

# More M&As in the pipeline

## Grand-Flo's strategy for expansion pays off

By ERROL OH  
errol@thestar.com.my

THE strategy of expansion via mergers and acquisitions (M&As) seems to be working well for Grand-Flo Solution Bhd. Based on its recently released unaudited results for 2007, the Mesdaq company's net profit has jumped 77% from the previous year, much of it owing to the businesses it has bought after its listing about three years ago.

Beginning in April 2005, Grand-Flo has completed four major acquisitions, the latest being the Jan 31 purchase of a 55% stake in label manufacturer Labels Network Sdn Bhd.

Grand-Flo is looking to broaden its presence in the region, particularly in countries such as Vietnam, Indonesia and China, and that means there will likely be more M&As in the pipeline. This is because the ICT player prefers to tie up with established partners in its foreign ventures.

Managing director and group president Derrick Tan acknowledges that investors tend to overlook Mesdaq companies because most of them are relatively lightweight in terms of sales and earnings.

"When we got listed in November 2004, we only made a profit of RM1.7mil that year and our revenue was about RM13mil. Even if we doubled that, it would still be small. So, the only way to grow faster is to acquire companies," he says.

"Of course, we have to be very focused in our M&As. The companies we invest in must provide synergies and be able to leverage on our business and network so that we can expand the business together."

Last year, Grand-Flo recorded a turnover of almost RM65mil and its net profit was RM6.4mil. The annual compounded growth of the earnings per share over the past three years exceeded 40%.

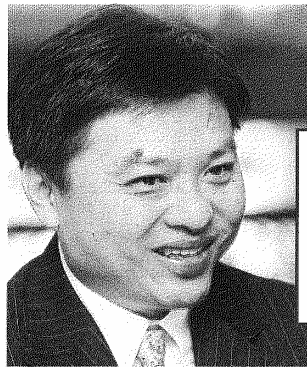
The company operates in the EDCCS (enterprise data collection and collation system) sector. It offers customers with integrated solutions, including proprietary software, for asset tracking and sales force automation. These mainly involve data capture by the scanning of barcodes, but the company is also ready to tap the potential of the RFID (radio frequency identification) market.

Tan says Grand-Flo is the regional leader in this business because it is the only one-stop provider in Southeast Asia. "We sell the software, hardware and solutions. We can even print the barcode labels. No other company in the region is able to do that. That is why we keep getting the jobs," he explains.

"We are the largest player. In terms of support and network, nobody else has that kind of size. A lot of companies prefer to deal with one vendor that can roll out the work regionally."

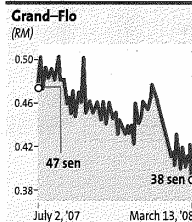
Apart from Malaysia, Grand-Flo has operations in Singapore and Thailand. In addition, it has extended its distribution network to Indonesia.

Its entry into Thailand was via the acquisition of a 49% equity interest in Simat Mobile Computer Co Ltd, now known as Simat Technologies plc. On Dec 12 last year, Simat was listed on



»The companies we invest in must provide synergies ...«

DERRICK TAN



Stock Exchange of Thailand's Market for Alternative Investment, thus allowing Grand-Flo to record a RM1mil gain in its books from the initial public offering (IPO).

Tan says Simat had a revenue of RM7mil with a profit of about RM750,000 when Grand-Flo came into the picture. "In the past 3 years, with the support of our technology and expertise, it grew its turnover last year to RM35mil and its profit was more than RM3mil," he adds.

The decision to float Simat came about because the rules in Thailand restrict Grand-Flo's stake to a 49% ceiling, Tan explains that this limit will impose a strain on the resources of Simat's other shareholders, who are individuals, when Simat requires fresh capital for expansion.

"We can raise the money in Malaysia to put into Simat, but it would be a bit more difficult for our partners," he says.

Although Simat is now an associate instead of a subsidiary, Grand-Flo is still the largest shareholder (with 37%) and it remains actively involved in the management of the Thai company. "In fact, with the proceeds from the IPO, we are growing aggressively in Thailand. We are looking to acquire businesses there through Simat," adds Tan.

An example of the synergies created by the M&As is the joint venture between Simat and Grand-Flo subsidiary Labels Network to make barcode labels and high-end cleanroom labels in Thailand. The factory is expected to begin production by the second quarter of the year.

Grand-Flo hopes to replicate its

Thailand experience in Vietnam. "We have identified a partner in Vietnam and are quite close to concluding our negotiations," Tan reveals.

"Vietnam is an up and coming market. It's a very good move to go in right now, while the cost is still low because the potential partner is still small. When we went into Thailand three years ago, Simat was small too and it has grown a lot since. I think we will see the same thing in Vietnam."

It is a different story in Indonesia. Grand-Flo has yet to find a suitable partner and may have to go it alone, although it may take a long time to build a business from scratch.

On the company's criteria for M&As, he says Grand-Flo wants good partners that already have a solid base. The idea is for Grand-Flo to supply the expertise, technology and networking to help accelerate the companies' growth.

The quality of the target companies' management matter as well. Tan adds, "We need to know the management. They must have the potential to go further. If they are not ambitious, there's no point buying the company."

Grand-Flo's other acquisitions have been more about strengthening its client base and widening its product offering.

For example, the purchase of Spritvest Sdn Bhd and its R&D arm, Data Centrix Sdn Bhd, in November 2006, allowed Grand-Flo's customer coverage to move beyond its traditional stronghold of manufacturing to other market segments such as fast-moving consumer goods (FMCG), logistics, retail, healthcare and government-linked companies.

The acquisition of the 55% stake in Labels Network has filled the missing link - in Grand-Flo's chain of products and services.

Tan is convinced that there is plenty of room for growth in the EDCCS market in the region, particularly in areas such as logistics, healthcare and FMCG. Compared with the situation in the United States and Europe, the countries here have yet to adopt many applications for asset tracking and automation.