Deloitte.

2006 Q1

Corporate Finance

The South African

Private Equity Confidence Survey

SAVCA

Charting the way...

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Introduction

Welcome to the third publication of the South African Private Equity Confidence Survey ("PECS"), conducted by Deloitte in conjunction with the Southern African Venture Capital and Private Equity Association ("SAVCA") amongst a population of over 300 investment professionals in the Private Equity industry across South Africa. In order to poll individual sentiment as opposed to house views, questionnaires are sent to different investment professionals within the same organisation. The publication summarises the results of the 12 month forward looking sentiment in the industry in Quarter 4 2005 and Quarter 1 2006.

Key Findings

- Continued positive outlook on the overall economic climate
- Increase in the availability of foreign investment into funds
- Manufacturing and services remain the focus industries with retail and media climbing steadily
- Competition for new investments continues to rise together with the volume of expected transactions, average deal sizes, entry and exit multiples
- A net seller position expected to develop over the next 12 months
- Expected IPO activity remains disappointingly low
- BEE expected to remain a catalyst for investment and opportunities in the market

Summary Results

Economic and Market Climate

Continued positive sentiment by respondents regarding the overall economic climate should continue, mirroring sentiment levels expressed during the first quarter of 2005. 58% of respondents expect an improvement and 42% predict the environment to remain the same. No respondents anticipate a decline in the overall economic climate (chart 1).

Funding

The expectation of raising new funds during the next twelve months has marginally tapered off from that predicted during the third and fourth quarter of 2005, but remains positive with 50% of respondents still aiming to raise new funds during the coming year (chart 2). Encouragingly, it also appears that it may become easier to raise a new fund in the near term according to 30% of respondents, up from 10% during the fourth quarter of 2005 (chart 3). The availability of debt funding for transactions also expected to increase (chart 15).

The sources of funding remain dominated by government / Developmental Funding Institutions and pension / endowment funds. Funding available from corporates has disappointingly declined to 2% from a high of 11% during the fourth quarter of 2005. Fund of funds grows in popularity to 13%, its highest level to date (chart 4).

Although South Africa remains the most popular market for sources of funds by respondents, it continues to decline in popularity to 41% during the first quarter of 2006, with the US markets peaking at 32%. This could well indicate an increased willingness by providers of funds to invest in South Africa as an emerging market where higher returns can be achieved (chart 5).

The majority of respondents (50%) during the first quarter of 2006, predict that the time required to invest current funds to be between two and four years. 20% of respondents now expect a period of longer than four year, with the less than two year category declining to 30% (chart 6).

Institutional investor sentiment towards the industry remains range bound with only 3% who predict this to be worsening (chart 7).

Investments

The industry interest barometer again shows that the manufacturing and services sectors will enjoy continued focus. The retail and media sectors show the largest percentage increases in predicted interest (chart 8).

Expansion & development remains the most popular anticipated deal type with start up & early stage remaining in second place. Replacement & buy out and seed capital continue to be unpopular (chart 9).

Competition for new investments remains high for 73% of respondents, not surprising given the strong economic outlook and availability of funding (chart 10).

Entry multiples continue their upward trend from Q2 2005 (chart 11) in line with the expected increased competition for new investments. Transaction volumes are still expected to increase or remain the same for the vast majority of respondents (chart 12) with average deal sizes now predicted to increase by 70% of respondents (chart 13).

In Q3 2005, 58% of respondents still expected to be net buyers of businesses. Over the last two quarters, this expectation has reversed, with 73% now expecting to be net sellers of businesses over the next 12 months (chart 14). This may well just be a result of timing in the normal investment cycle for funds.

Exits

Exit valuations are expected to increase during the next 12 months by 79% of respondents (chart 16) with 71% anticipating exit volumes to also increase (chart 17). This further supports the move to a net seller position highlighted above.

Chart 18 depicts envisaged exit mechanisms. IPO activity remains disappointingly low in line with prior surveys, despite the overall success of the JSE over the last two years. Trade sales are still the most popular envisaged exit mechanism for 55% of respondents.

Overall, investment lifecycle's are trending down with 71% anticipating average lifecycles to be between 2 to 5 years, up from 64% in Q3 2005. The proportion of respondents expecting lifecycles of 5 years and up has decreased from 40% to 29% (chart 19).

Performance

There is no room for pessimism in the outlook on aggregate portfolio values, with 100% of respondents of the opinion that values are trending upwards (chart 21).

Interestingly, 50% of respondents anticipate the relative performance of investee companies to be below expectations (chart 20), but with higher aggregate valuations still expected, this could indicate that generally performance expectations where extremely high but current performance is still satisfactory although not as stellar as originally envisaged.

BEE

79% of respondents now predict their funds to be categorised as black influenced to black controlled. Surprising is the increase to 21% of respondents predicting funds to contain no black involvement (chart 22).

BEE is and will continue to be a significant deal driver with 68% of respondents expecting it to generate more opportunities (chart 24) and 49% of respondents expect BEE to be a requirement in 75% or more of their deals (chart 23).

Other

Overall the expected allocation of the time spend during the next twelve months by investment professionals remains fairly consistent with prior survey results (chart 25).

Investors

Investors continue to view PE as an asset class that provides returns which outperform the relevant JSE index as well as deliver superior risk-adjusted returns (charts 26 and 27).

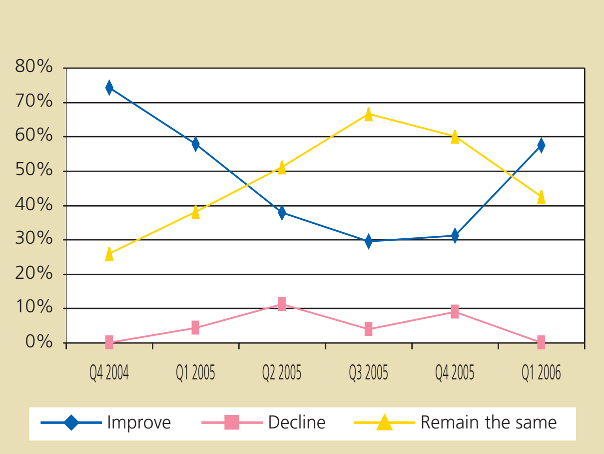
Encouragingly, 75% of respondents expect actual funds allocated to PE as a percentage of total funds to increase during the next 12 months (chart 28). Unfortunately the relative allocation of funds to PE as an asset class shows a decrease from prior periods (chart 29). 83 % of respondents indicate that 33% of funds committed to PE will be provided to BEE funds (chart 30).

Investor's largest barriers to investment in PE remain that the asset class is not well understood and the lack of apparent liquidity.

Charting the way...

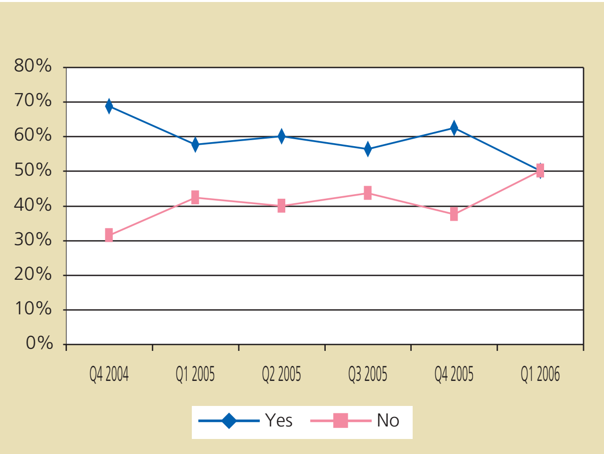
General Economic Climate

1. During the next twelve months, I expect the overall economic climate to:

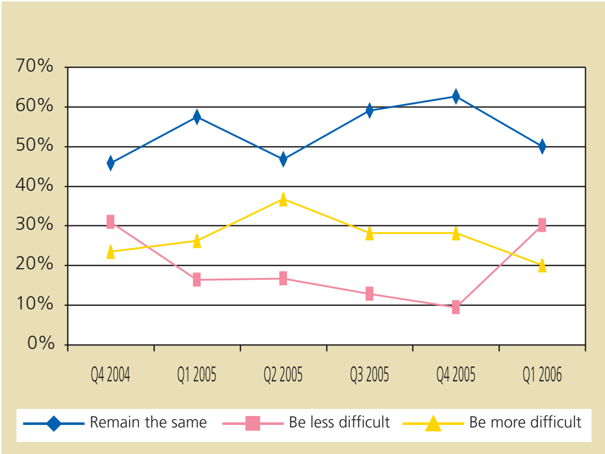


Funding

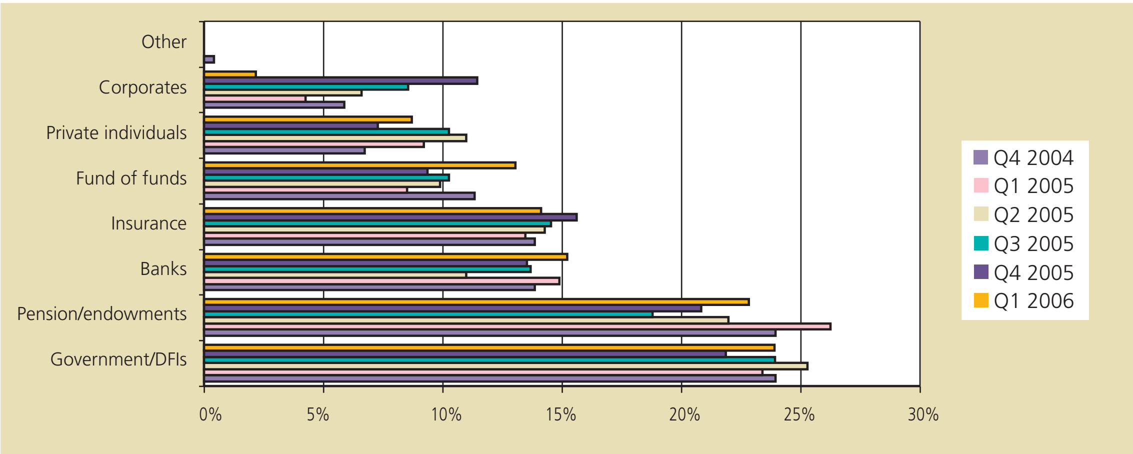
2. Over the next twelve months we plan to raise a new fund:



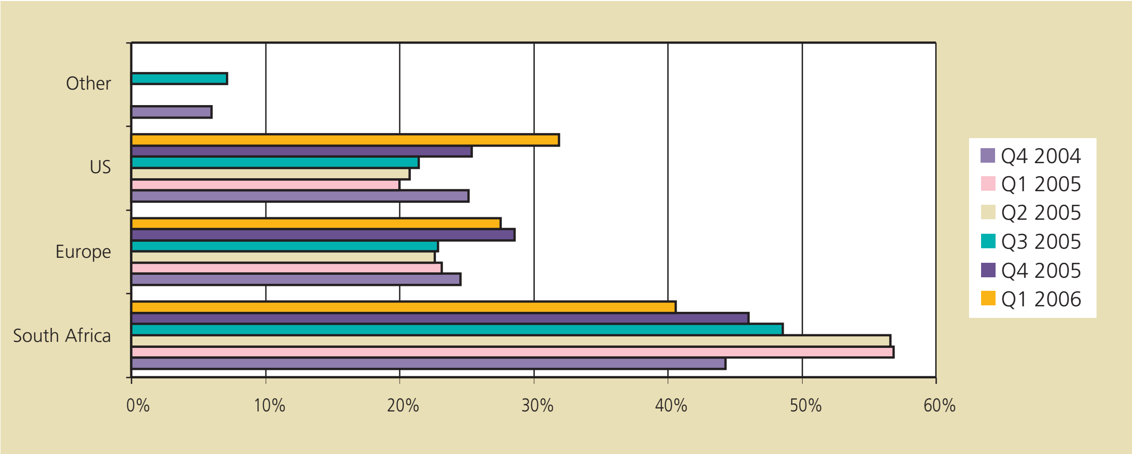
3. Over the next twelve months we expect raising new funds for investment to:



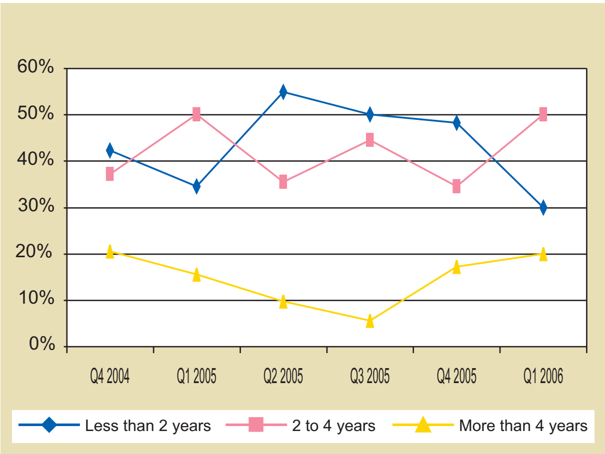
4. If we intended to raise funds within the next 12 months, we would raise capital from the following source of third party funding:



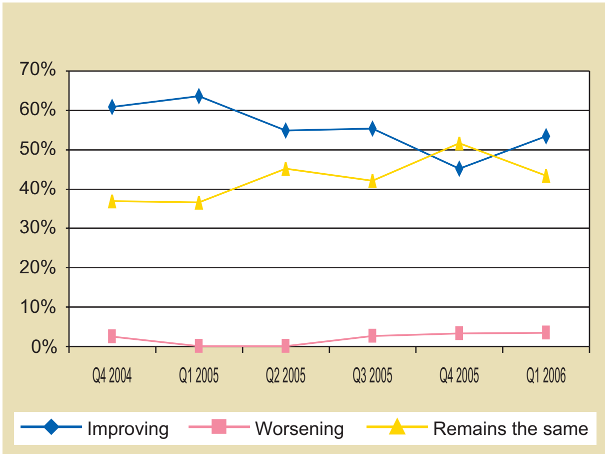
5. If we intended to raise funds within the 12 months, we would raise capital from the following geographical source:



6. I expect the time it will take to invest my current fund to be:

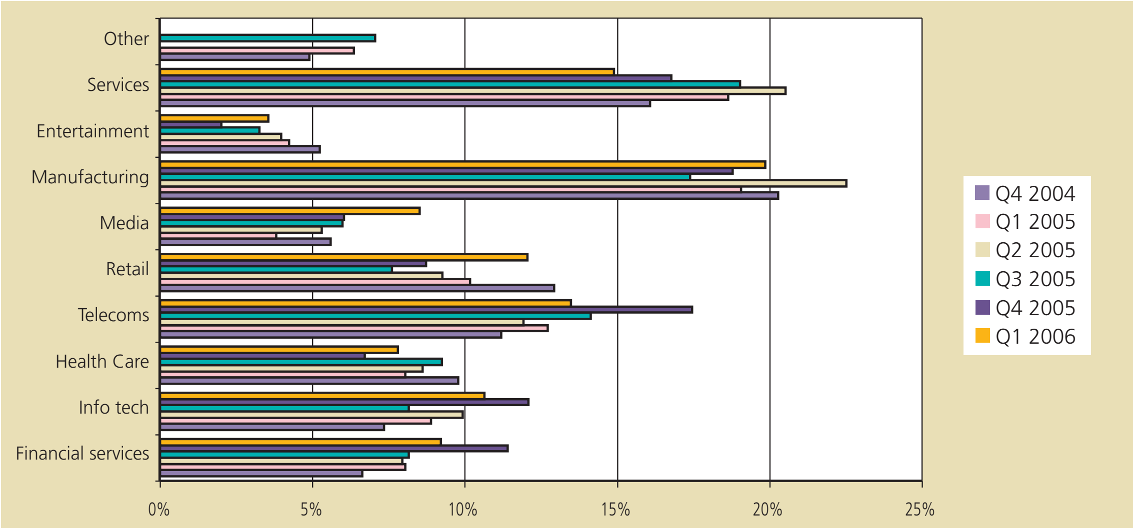


7. Currently, I feel that the understanding and attitude of institutional investors towards the PE / VC industry is:

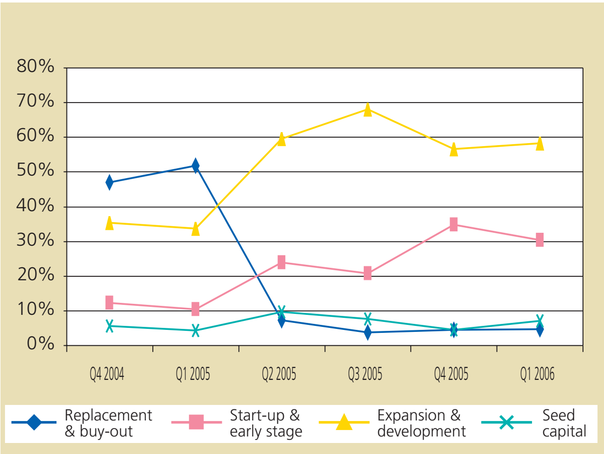


Investments

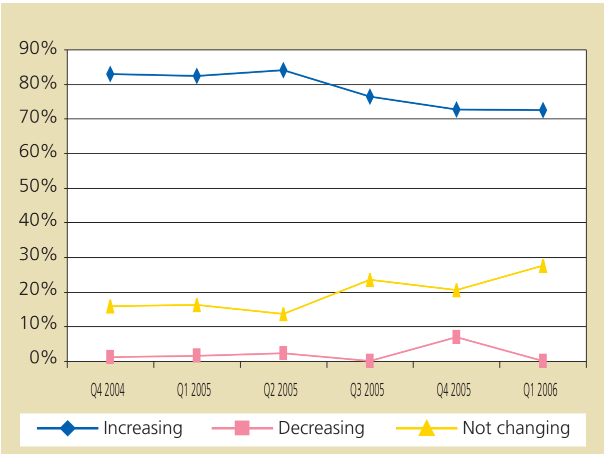
8. Over the next 12 months I expect to focus on opportunities in the following sectors:



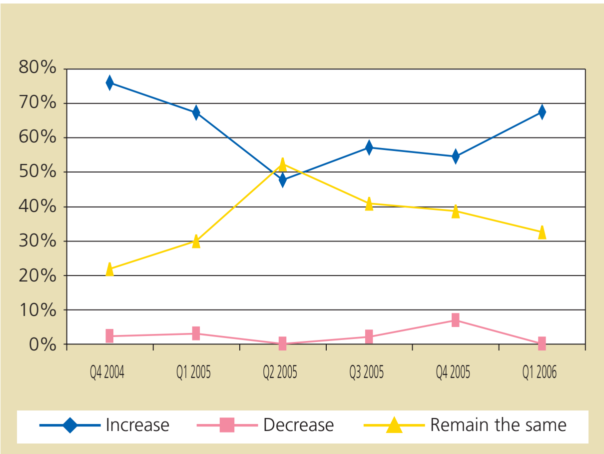
9. I am currently looking at the following types of deals:



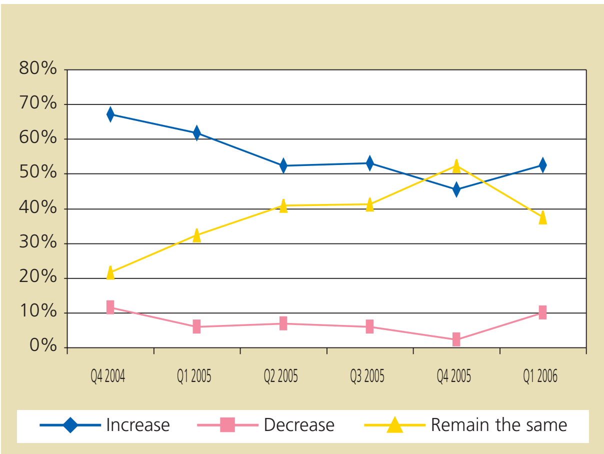
10. At the present time, competition for new investment opportunities is:



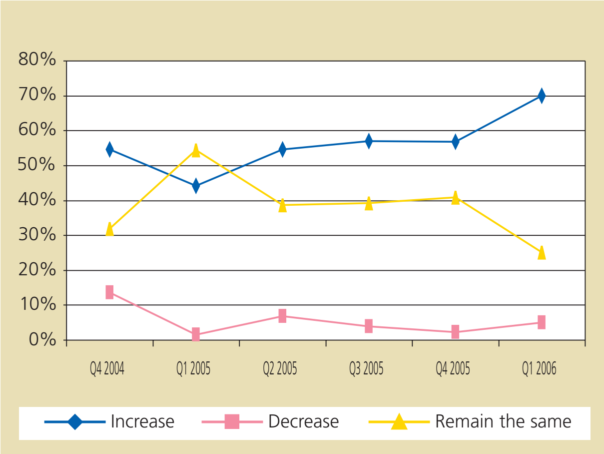
11. Over the next twelve months I expect entry multiples on transactions to:



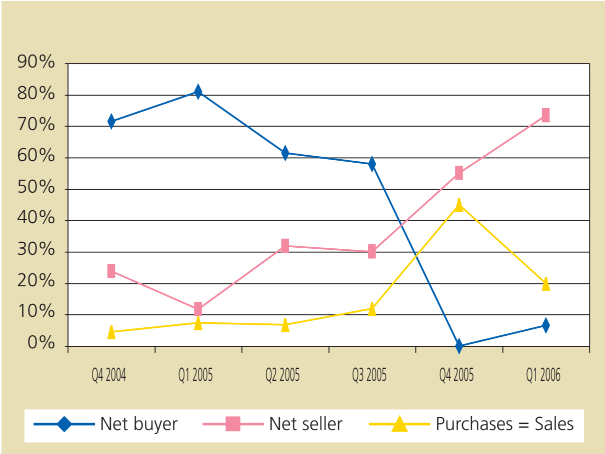
12. Over the next twelve months I expect the volume of transactions to:



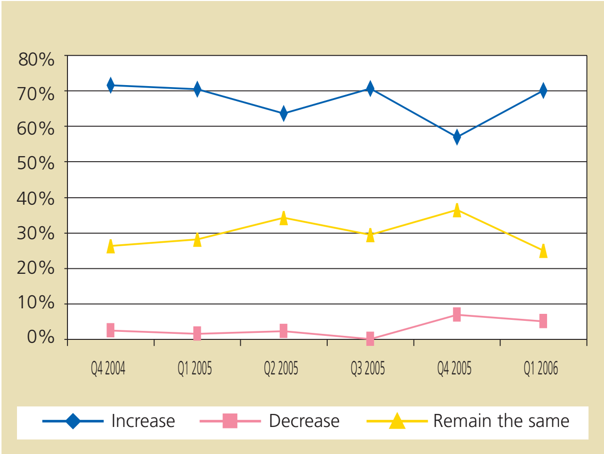
13. Over the next twelve months I expect the average deal size to:



14. In the next twelve months I expect to be a net buyer or net seller of businesses:

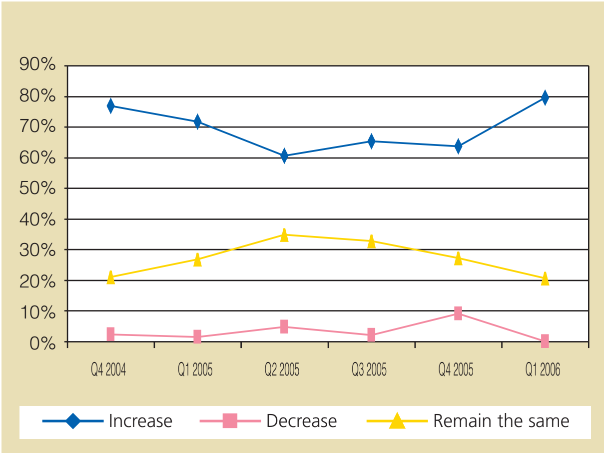


15. I expect the availablity of debt financing for transactions to:

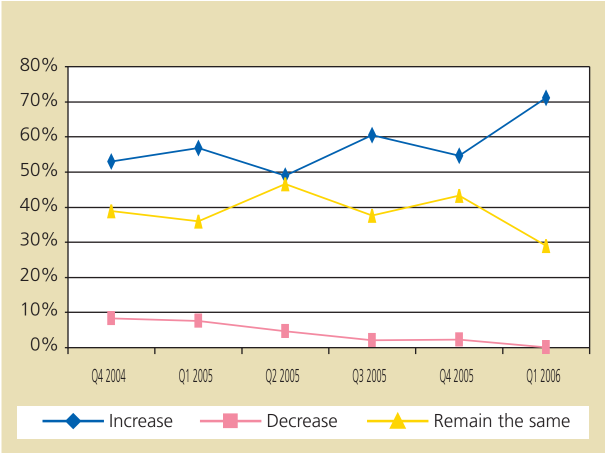


Exits

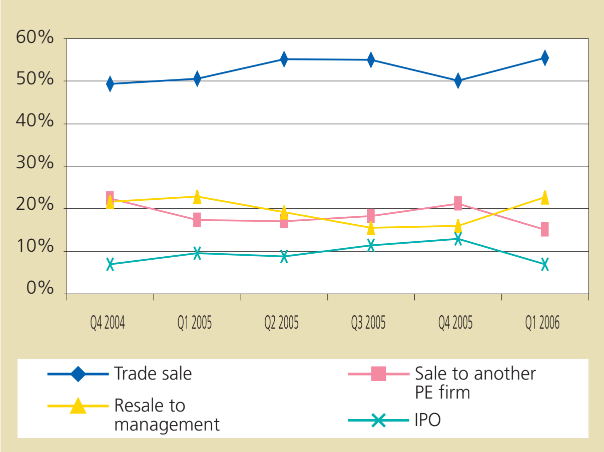
16. During the next twelve months, I expect exit valuations to:



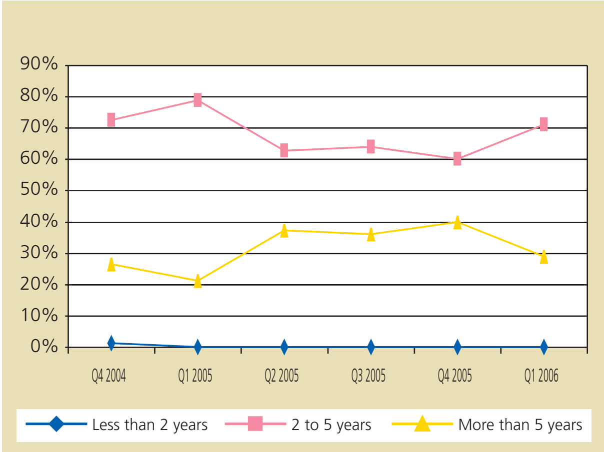
17. During the next twelve months I expect the volume of exits to:



18. During the next 12 months, we expect to exit investments by:

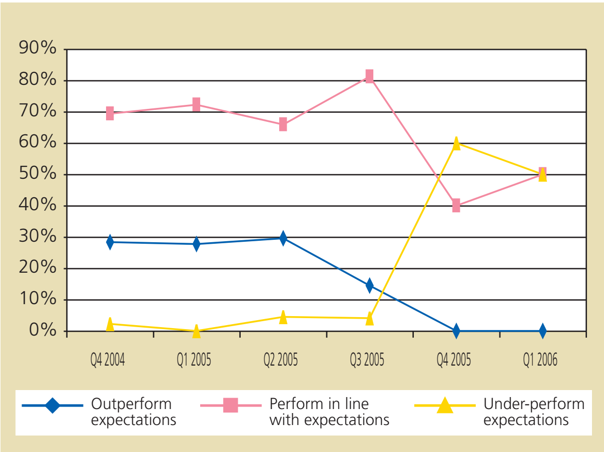


19. I expect the average lifecycle from initial investment to exit for investments made in 2004 to be:

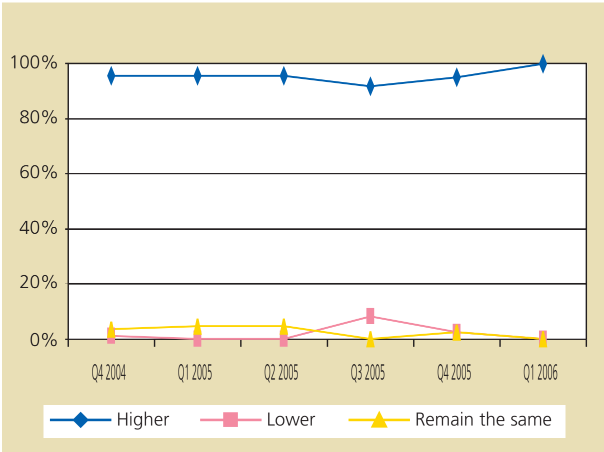


Performance

20. Over the next twelve months I expect the relative financial performance of our investee companies to:

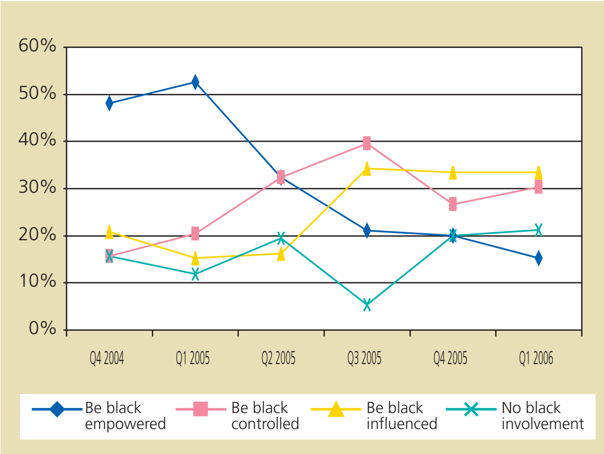


21. Twelve months from today, I anticipate the combined valuation of all portfolio companies in which we are invested today, relative to current value, to be:

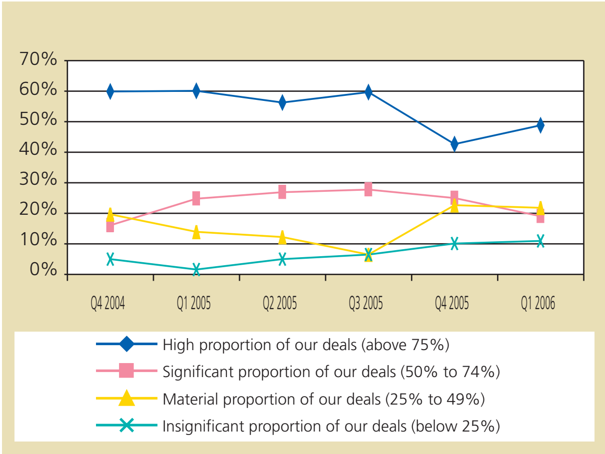


BEE

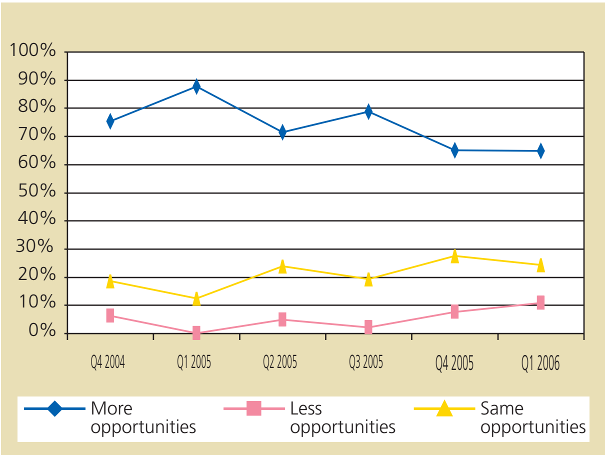
22. During the next twelve months we expect our fund to:



23. During the next twelve months we expect BEE to be a requirement in a(n):

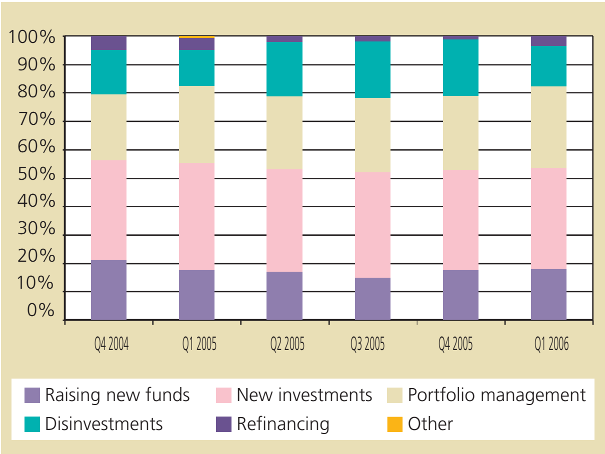


24. For our business, BEE will generate:



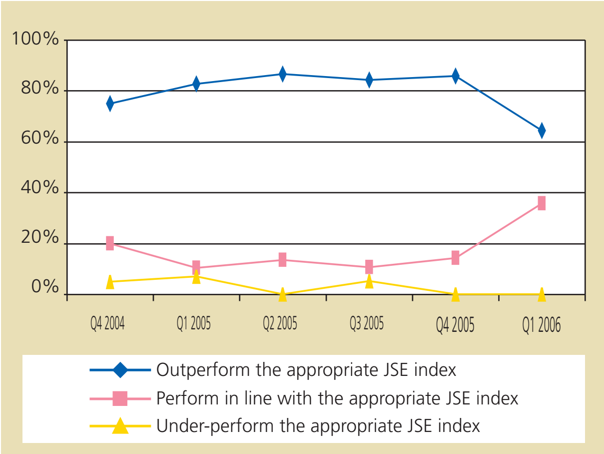
Other

25. During the next twelve months, we expect to spend the majority of our time focused on:

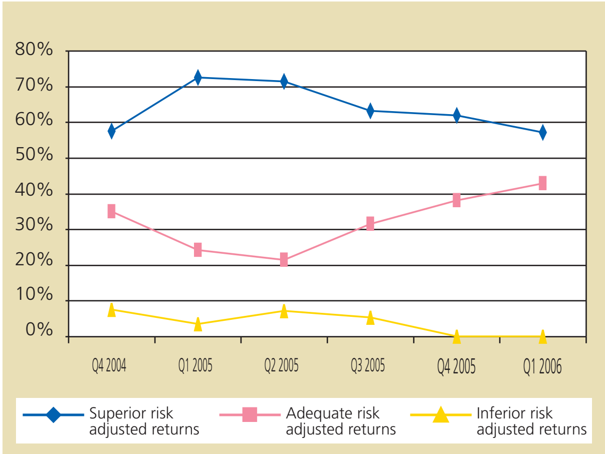


Investors

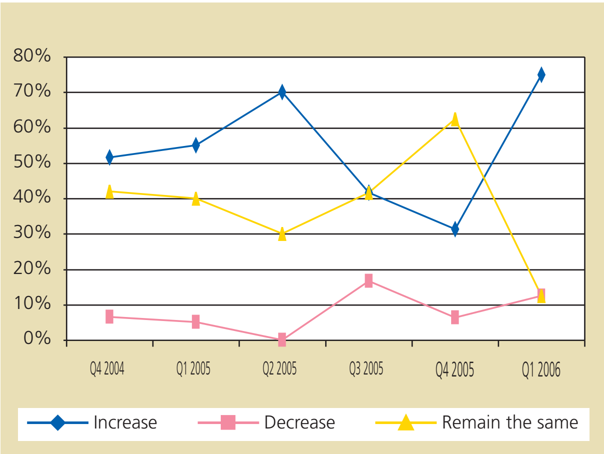
26. My current medium-term view is that PE / VC funds will provide returns that will:



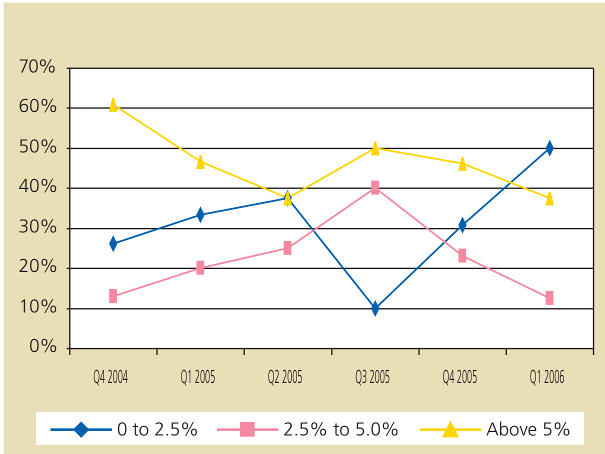
27. My current medium-term view is that PE / VC funds will provide:



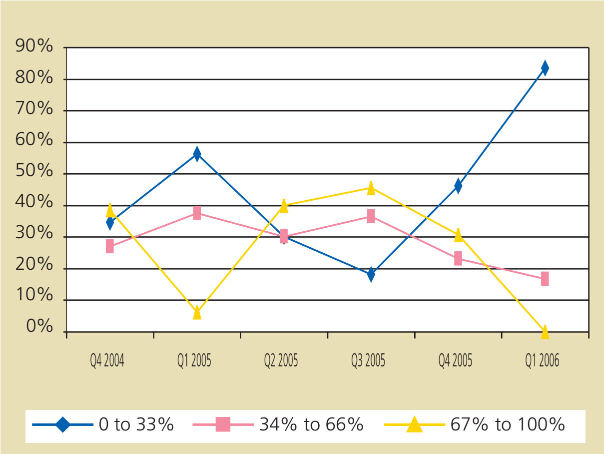
28. During the next twelve months we expect our allocation (% of total funds) to PE / VC funds to:



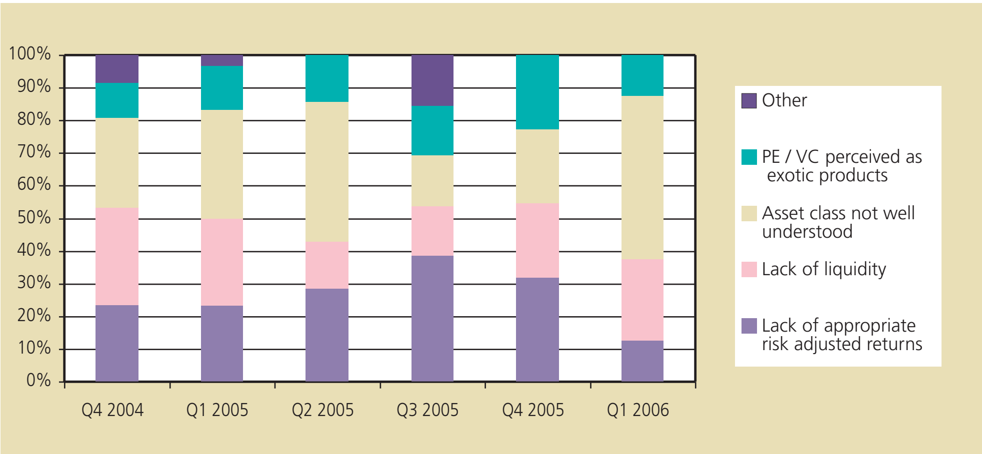
29. Our current allocation to PE / VC funds are:



30. Of our funds committed to PE / VC funds during the next twelve months, investment in BEE funds will be:



31. I expect the following to be contraining factors during the next twelve months for investing in PE / VC funds:



About PECS

The Deloitte PECS provides a comprehensive snapshot of the venture capital and private equity industry's expectations for the next 12 months, and acts as an indicator of changing confidence levels in:

- economic climate
- deal activity
- availability of funding and investment focus.

The results produce a forward looking measure of the overall sentiment in the South African Venture Capital and Private Equity community, which is extremely relevant to immediate deal flow. This survey, is modelled on similar quarterly surveys conducted in 16 other developed and emerging economies and from a South African perspective, will initially be conducted on a quarterly basis and published semi-annually. PECS will further facilitate comparisons of trends and views expressed by the global venture capital community with our domestic marketplace. The surveys were conducted amongst a population of approximately 300 private equity investment professionals in South Africa. Other countries and regions where Deloitte has run PECS include:

United Kindom	Germany/Austria/Switzerland
France	Canada
Australia/New Zealand	Israel
Benelux Countries	Czech Republic
Slovakia	Hong Kong/China

Deloitte Contacts

For further information about this survey or to find out more about Deloitte's Corporate Finance team please contact one of the specialists listed below. Suggestions for issues to be addressed in future Private Equity Confidence Surveys are welcome.

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About SAVCA

SAVCA was founded in 1999 and is the industry association representing venture capital and private equity firms in South Africa. SAVCA presently has 61 full members and 25 associate members, representing 350 professionals in the industry with over R45 billion of assets under management. For more information, or to become a full or associate member of SAVCA, please contact:

The Southern African Venture Capital and Private Equity Association

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