



CORPORATE FINANCE

## KPMG and SAVCA

Venture Capital and Private Equity Industry Performance  
Survey of South Africa covering the 2005 calendar year

May 2006

ADVISORY

# The GIBS & SAVCA Foundation Programme for Venture Capital and Private Equity.

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The Gordon Institute of Business Science, together with the Southern African Venture Capital and Private Equity Association, have partnered to create The Foundation Programme, a three-day course from 15 – 17 May 2006. This programme will provide a strategic overview of the Venture Capital and Private Equity industry and processes, as well as working knowledge of key analytical tools used by practitioners and insights into practical challenges and strategic opportunities in the industry.

The three-year partnership between GIBS and SAVCA will include the hosting of:

- An annual three-day Foundation Programme
- An annual one-day Advanced Programme
- A number of GIBS Forum events highlighting topical industry issues which have an impact on practitioners.

For more information on these programmes, visit [www.gibs.co.za/savca](http://www.gibs.co.za/savca) or to reserve your seat contact Valéria Wastell on (011) 771 4108, or e-mail at [wastellv@gibs.co.za](mailto:wastellv@gibs.co.za). But don't wait too long. An investment this profitable doesn't come around every day.



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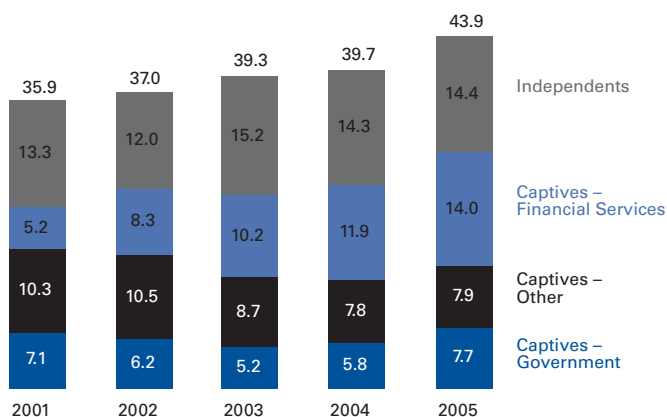
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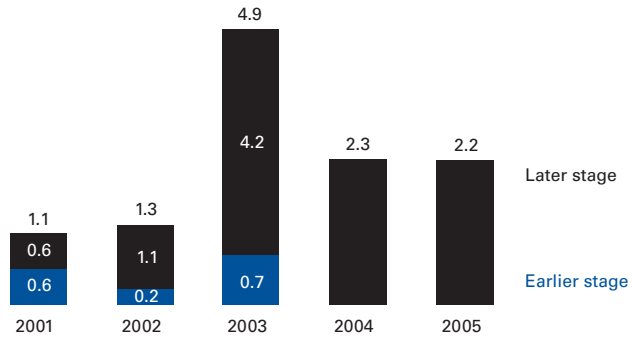
## Highlights

- 48 entities, managing 77 funds, are included in this year’s survey.
- South Africa’s private equity industry boasts R43.9 billion in funds under management at 31 December 2005, an increase of 10% from 31 December 2004 of R39.7 billion.
- R15.6 billion at the end of 2005 in undrawn commitments is available for future investments (2004: R13.8 billion).
- Captives – Financial Services’ funds under management increased by 18% from R11.9 billion at the end of 2004 to R14 billion at the end of 2005. Their funds under management have increased by a compound annual growth rate of 28% during the last four years.
- Captives – Government’s funds under management increased by 33% from R5.8 billion at the end of 2004 to R7.7 billion at the end of 2005.
- Funds raised of R2.2 billion during 2005 following on from the R2.3 billion raised in 2004 and R4.9 billion raised during 2003.
- Investment spending by private equity firms down 24% from R6.5 billion during 2004 to R4.9 billion during 2005.
- R4.4 billion was returned to investors during 2005 following on from R4.5 billion returned during 2004.
- Fund managers, excluding Captives – Government, that are black owned, empowered or influenced companies have R27.3 billion of funds under management at 31 December 2005, an increase of 46% from the R18.7 billion at the end of 2004.
- Investments in entities that are black owned or empowered up 78% from R1.8 billion during 2004 to R3.3 billion during 2005.

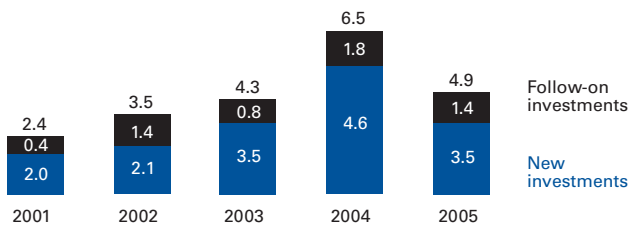
Total funds under management at year end (Rbn)



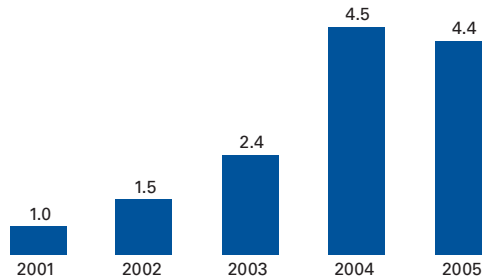
**Funds raised by fund stage during the year (Rbn)**



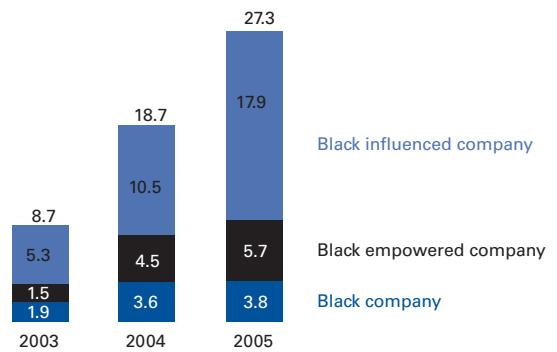
**Cost of investment made during the year (Rbn)**



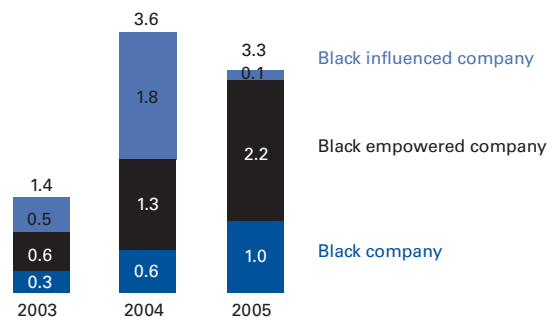
**Funds returned to investors during the year (Rbn)**



**Funds under management by BEE fund managers (Rbn)**



**Cost of BEE investments made during the year (Rbn)**



## Glossary

<b>AVCJ</b>	Asian Venture Capital Journal
<b>BEE</b>	<p>Black Economic Empowerment</p> <p>BEE, as defined in the Financial Sector Charter, means the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies.</p> <p>The definitions used in this survey for BEE companies are stated below:</p> <p>“Black companies” refers to companies that are more than 50% owned and are controlled by black people. Control centres on the authority and power to manage assets, the determination of policies and the direction of business operations. Black people refers to all Africans, Coloureds and Indians who are South African citizens and includes black companies.</p> <p>“Black empowered companies” refers to companies that are more than 25% owned by black people (but not more than 50%) and where substantial participation in control is vested in black people.</p> <p>“Black influenced companies” refers to companies that are between 5% and 25% owned by black people and with participation in control by black people.</p> <p>“Not empowered companies” refers to companies that are less than 5% owned by black people.</p>
<b>BVCA</b>	British Venture Capital Association
<b>Captive fund</b>	Those funds making investments mainly on behalf of a parent or group, typically an insurance company, bank or institutional asset manager, often from an indeterminate pool of money.
<b>Carried interest</b>	This represents a fee enhancement for a private equity fund manager for achieving a benchmark return or ‘hurdle rate’. The fee is often set at 20% of the value of returns achieved in excess of the benchmark return.
<b>DFI</b>	Developmental Funding Institution

<b>Draw down</b>	A draw down or capital call occurs when third party investors (called limited partners in the US) provide cash to a private equity fund for investment into a portfolio company. The draw down reduces the outstanding commitment due from the investor.
<b>EVCA</b>	European Private Equity and Venture Capital Association
<b>Follow on investments</b>	Investments into companies where at least one round of funding had already been made.
<b>GDP</b>	Gross Domestic Product
<b>Gross IRR</b>	IRR before the deduction of management fees and carried interest.
<b>Gross realised IRR</b>	Gross IRR on the total realised portfolio of investments.
<b>Independent fund</b>	Those private equity companies, managers or funds raising and disbursing capital which has been sourced mainly from third party investors.
<b>IPO</b>	Initial Public Offering. The first time that a company's equity is sold on a stock exchange.
<b>IRR</b>	Internal Rate of Return
<b>JSE</b>	JSE Limited (previously the Johannesburg Stock Exchange South Africa)
<b>KPMG</b>	KPMG Services (Proprietary) Limited
<b>LAVCA</b>	Latin America Venture Capital Association
<b>NVCA</b>	National Venture Capital Association (US)
<b>PWC</b>	PricewaterhouseCoopers
<b>SAVCA</b>	The Southern African Venture Capital and Private Equity Association
<b>Total funding</b>	Total funds raised by all providers of capital during a transaction. This could include the purchase consideration, funds to pay advisors fees, funds required for immediate working capital requirements, etc. This could be in the form of equity, shareholder loans, senior, mezzanine and junior debt and working capital facilities.
<b>US</b>	United States of America

## Foreword



I am honoured to once again make some introductory comments on the annual Industry Performance Survey.

It is gratifying to note the continuation of the yearly trend of expanded and improved information as well as the analysis thereof.

This annual survey maintains its status as the definitive industry publication and it is widely used locally and internationally, by industry participants and stakeholders, policymakers,

academics, students, investment analysts and the media.

The availability of this source of regular, reliable information and analysis has contributed to a virtuous circle of awareness and understanding which has in turn generated expanded interest in and growth of the industry.

As I reflect on the significant progress made by the industry, it is again apparent that this annual Industry Performance Survey is one of SAVCA's most important projects.

I wish to draw your attention to the following findings of the survey:

- Firstly, the scale of activities of the industry in SA compares favourably with many major international economies. Notwithstanding, it is SAVCA's view that there is much scope for further growth and development – particularly in the context of Government's stated growth targets for the economy as a whole. Local and international research confirms that our industry is one of the key drivers of entrepreneurial activity in an economy.
- Secondly, the research again reflects that the industry in SA is predominantly a provider of expansion and development capital and replacement and buy-out capital. More attention needs to be paid to increasing the availability of seed and start up capital.
- Thirdly, BEE has been a major source of activity in the industry and there have been significant moves by industry players to transform themselves. We continue to engage with the Department of Trade and Industry and the Financial Sector Council on the complex issue of indirect ownership in so far as pertains to independent fund managers.

An important development during this year which has further enhanced the credibility of the industry was the endorsement by SAVCA of the International Private Equity and Venture Capital Valuation Guidelines which has now been endorsed by 21 associations worldwide.

In conclusion, I would like to thank the association's members for participating in the survey, and especially the teams from KPMG and SAVCA for their very considerable efforts to produce this outstanding survey. Your efforts are much appreciated.

Malcolm Segal  
Chairman – SAVCA; Executive Director – Sasfin Bank Limited  
Head: Sasfin Capital



It is a pleasure to present the seventh consecutive KPMG and SAVCA Venture Capital and Private Equity Industry Performance Survey.

I believe that we have once again been able to expand and enhance both the scope and quality of information provided, as ever more meaningful information and relevant statistics about the industry have been incorporated in this survey.

We wish to thank all the practitioners, industry participants and relevant stakeholders who have either provided meaningful feedback over this last year, to make it even more relevant and useful to a wider audience, or to those who have completed the survey questionnaire and participated. We greatly appreciate your participation – without it the survey would not be as complete or accurate as we endeavour to ensure.

We are proud to be associated with this survey and with the private equity industry as a whole. We trust that those directly involved in the venture capital and private equity industry, the major institutions and other providers of funding, both locally and internationally, entrepreneurs and recipients of capital, regulatory bodies, government organisations and other stakeholders will continue to find the survey informative and relevant. Based on the ever increasing number of calls we field during the year relating to the survey, from both local and international players, we have a strong belief that the survey is widely used and relied upon.

I would also like to thank SAVCA, and particularly the survey sub-committee of Walter Hirzebruch (Brait), Shaun Zagnoev (Ethos), Garth Willis (Standard Bank) and Sean Dougherty (Brait) for their assistance and contribution to the survey. A very special word of thanks must also be extended to Marco Dias, an Associate Director of KPMG's Corporate Finance practice, for all the research, time and effort he has put into the survey over the last few years, and in particular this latest edition.

KPMG congratulates the members of SAVCA, and the industry as a whole, for the growth they have achieved and the meaningful role they are playing in the South African market. The results of the 2005 survey have again confirmed that the contribution of the private equity industry within the local economy is growing in importance and is far reaching.

As great as the accomplishments of the private equity industry during the last seven years are, I strongly believe we are on the cusp of a new era and we can look forward to even greater accomplishments and new milestones being achieved. We look forward to continuing to report on this in future years.

John Geel  
Managing Director – KPMG's Corporate Finance practice



## Sources of information

The principal source of information for this survey was the survey Questionnaire. In addition we have utilised a draft version of SAVCA's 2006 Handbook, held discussions with certain private equity industry participants, as well as sourced public information on private equity funds, including international surveys.

The survey Questionnaire was developed jointly by KPMG and a SAVCA sub-committee constituted for this purpose, with a view to ensuring that relevant information was extracted.

KPMG's background research identified 62 entities that may potentially be classified as private equity firms or are involved in the management of private equity funds. This included all the fund managers registered as members of SAVCA at 1 January 2006. Questionnaires were e-mailed to all 62 entities. Thirty-five of them (representing 57 funds) at least partially completed the Questionnaire. In addition, alternative sources were used to obtain information on a further 13 private equity firms, representing 20 funds, that did not complete the Questionnaire. Although these alternative sources did not provide us with as much information as our Questionnaire, we nevertheless believe that the information we present provides a fair reflection of the state of South Africa's private equity industry. We are confident that the 13 participants for which no information was sourced are not significant players in the South African industry and we do not believe that they would have had a material impact on our survey results.

International data has been sourced from various sources, including:

- Global data: PWC 3i Global Private Equity 2004 Survey (relating to the 2003 calendar year)
- US venture capital data: MoneyTree Survey prepared by PWC/Thomson Venture Economics/NVCA (Q4 2005 survey)
- US buyout data: Thomson Venture Economics (Buyouts Newsletter dated 9 January 2006)
- European data: EVCA/Thomson Venture Economics/PWC
- Latin American data: LAVCA (Executive Briefing dated 10 April 2005)
- Asian data: Private Equity Asia (March 2006 edition) and AVCJ guide to VC in Asia
- Israeli data: MoneyTree Survey prepared by Kesselman & Kesselman PWC (Q4 2005 survey)
- Other sources specifically included in the footnotes

In compiling the information for this survey, KPMG has worked closely with the SAVCA sub-committee, to ensure meaningful interpretation and comment has been included in this report. This sub-committee reviews the survey presentation prior to its public release, but does not have access to any of the individually completed Questionnaires submitted to KPMG or any other information not presented in this publication.

Although care has been taken in the compilation of the survey results, KPMG and SAVCA do not guarantee the reliability of its sources or of the results presented. Any liability is disclaimed, including incidental or consequential damage arising from errors or omissions in this report.

## Introduction to private equity

Private equity provides equity capital to enterprises that are generally not quoted on a public stock exchange. Private equity can be used to develop new products and technologies, to expand working capital, to make new acquisitions or to strengthen a company's balance sheet. It can also resolve ownership and management issues, succession in a family owned business or the buy-out or buy-in of a business by experienced managers.

### Investment stages

Private equity can be broadly classified into three sub-classes, namely: venture capital, development capital and buy-out funding.

Because the definitions of the terms "venture capital" and "private equity" vary from country to country, Figure 1 sets out the terminology used in this survey to avoid confusion.

**Figure 1: Private equity investment stages**

Venture capital	Seed capital	Funding for research, evaluation and development of a concept or business before the business starts trading.
	Start-up and early stage	Funding for new companies being set up or for the development of those which have been in business for a short time (one to three years).
Development capital	Expansion and development	Funding for growth and expansion of a company which is breaking even or trading profitability.
Buy-out	Leveraged buy-out or buy-in	Funding to enable a management team or empowerment partner, either existing or new, and their backers to acquire a business from the existing owners, whether a family, conglomerate or other. Unlike venture and development capital, the proceeds of a buy-out generally go to the previous owners of the entity. Buy-outs are often leveraged.
	Replacement capital	Funding for the purchase of existing shares in a company from other shareholders, whether individuals, other venture-backers or the public through the stock market. Unlike venture and development capital, the proceeds of replacement capital transactions are generally paid to the previous owners of the entity.

There are variations among different countries in what is meant by venture capital and private equity. In Europe, like in South Africa, these terms are generally used interchangeably. This is in contrast to the US, where buy-outs are not classified as venture capital. This survey has been prepared to cover the full spectrum of private equity investing.

### History of private equity

South African companies have long invested in unlisted businesses. Why then has private equity become such a popular catch phrase? The answer lies in the development, internationally, of a professional private equity management industry. The success in terms of growth achieved by private equity funds in the US and, to a lesser extent in Europe, has resulted in the development of professional private equity firms in other parts of the world, including South Africa.

#### US

Organised and professionally managed investments in the private equity market can be traced back to 1946 in the US, when the American Research and Development Corporation (ARD) was formed to facilitate new business formation and development. ARD's stock persistently traded at a discount to its net asset value, and it had difficulty raising capital on the stock market. This was indicative of a negative view of private equity as an asset class. During the 1950's and 60's, the US Congress introduced legislation to promote the development of small business, with moderate success. An increase in the market for IPOs in 1968 – 1969 resulted in significant profitable realisations of venture capital investments made in the 1960's. During the 1970's, many of these venture capital partnerships began leveraging buy-outs of divisions of large conglomerates. Almost every large US technology or tech related company, including Apple, Compaq, Dell, Genetech, Oracle, Cisco, Netscape, Amazon, eBay and Yahoo, is venture-backed<sup>1</sup>.

During the late 1970's, regulatory and tax changes allowed US pension funds to invest in private equity for the first time. This, together with the success of new leveraged buy-out (LBO) firms, resulted in a boom in fund raising<sup>2</sup>. In 1987, Kohlberg Kravis and Roberts raised a then record US\$5.6 billion LBO fund, which was more than twice the total commitment to all other venture capital firms in that year.

The 1980's and 1990's saw explosive growth in US private equity commitments. The private equity industry in North America (inclusive of buy-out activity) increased to an all time high during 2000 with \$130.6 billion of investments and \$180.5 billion of funds raised during that calendar year alone. Expansion and early stage investments comprised 85% of this, reflecting the strong growth in these subclasses of private equity.

The global industry declined sharply after the "bubble burst" of the early 2000's and signs of recovery are only now appearing with fund raising and investment activity being reported during 2005 reminiscent of late 1990's record levels.

Cumulative investments and funds raised from 1998 to 2005 were approximately \$601.1 billion and \$780.6 billion respectively for North America<sup>3</sup>.

<sup>1</sup> Smarter Ventures – A survivor's guide to venture capital through the new cycle, Katharine Campbell

<sup>2</sup> The economics of the private equity markets, Ice Millar Donandio & Ryan

<sup>3</sup> 1998 to 2003: PWC 3i Global Private Equity 2004 survey (relates to the 2003 calendar year); 2004 and 2005: Only includes the US as reported in the MoneyTree Survey prepared by PWC/Thomson Venture Economics (venture capital component) and Thomson Venture Economics (buyouts component).

### Europe

Attempts by European countries to mirror the success of the US private equity industry in the early 1980's largely failed. As Europe, however, emerged from the recession of the early 1990's, it too became a fertile environment for private equity. In 1997, a number of private equity firms raised funds of more than \$1 billion for the first time. The European market has not yet been able to match the successes of the US and is still very much maturing. Its best known technology businesses such as Nokia, Vodafone, Dassault Systemes and SAP were not funded by venture capital<sup>1</sup>.

European cumulative investments and funds raised from 1998 to 2005 are reported at €235.5 billion and €275.3 billion respectively. Europe had a €156.1 billion private equity investment portfolio at cost at 31 December 2004<sup>2</sup>.

Preliminary data indicates that 2005 was a record year for Europe with significant increases across most measurement criteria, especially fund raising where more funds were raised in 2005 (€59.5 billion) than during 2003 (€27.0 billion) and 2004 (€27.5 billion)<sup>3</sup> combined. Gemma Postlethwaite, Vice President of Thomson Financial, said the following about the current state of the European private equity industry: "...the industry in Europe has emerged from the early part of the decade in better form than any of us could have predicted four years ago. By committing an unprecedented €60 billion in 2005, investors are showing great interest in European private equity and indicating it is now an asset class. Long-term returns are healthy, and all signs show a positive momentum going into 2006."

### Global market

The global market is dominated by the US. Sixty-seven percent of all global private equity funds raised from 1998 to 2003 have in fact been raised in North America with Europe and Asia Pacific a distant second and third with 25% and 6% respectively. The Middle East, Africa, Central and South America combined only contributed the remaining 2%<sup>4</sup>.

### South Africa

In South Africa, the four major commercial banks, and their predecessors, pioneered leveraged buy-outs. This was largely driven by disinvestments from South Africa in the early 1980's. These buy-outs, encouraged by the international success of private equity, formed the foundation for our private equity market today.

The private equity industry was, however, only formalised locally with the constituting of SAVCA in 1999. The local industry is relatively sophisticated by emerging markets' standards and its participants are active in early stage investments through to large LBOs. The local industry has been fuelled by BEE initiatives in recent years while Captives – Financial Services have contributed the most to the growth in local funds under management with a compound annual growth rate in funds under management of 28% during the last four years.

<sup>1</sup> Smarter Ventures – A survivor's guide to venture capital through the new cycle, Katharine Campbell

<sup>2</sup> EVCA/Thomson Venture Economics/PWC

<sup>3</sup> Preliminary 2005 data compiled on behalf of EVCA by Thomson Financial and PWC

<sup>4</sup> PWC 3i Global Private Equity 2004 survey (relates to the 2003 calendar year)

### Types of private equity firms

A distinction needs to be made between captive and independent fund managers<sup>1</sup>. Fund managers include independents who manage funds on behalf of third parties as well as captives who manage on balance-sheet investments that were funded by a parent or group often from an indeterminate pool of money. Captive funds are for the purpose of this survey further classified into the captive funds of government, financial services (including banks and insurance companies) and other captive funds (including corporates).

#### Independents

Independent fund managers raise cash commitments from third party investors<sup>2</sup>. Generally, in terms of the agreement between the third party investors and the private equity fund manager, the private equity firm draws down on the commitments as and when investments are to be made. Independents are the dominant type of firm in the UK, the rest of Europe and in the US, where these funds are structured as limited partnerships. Private equity firms typically act as the general partner of the limited partnership, whilst institutions and other investors become limited partners.

Unlike captive funds, independent funds are usually closed ended. This means that once a fund has been raised, it is closed out, following which no further commitments are accepted from third parties. Typically, third parties' commitments expire, often according to a time schedule based on a "use it or lose it" principal, once a maximum drawdown time period expires. Professional private equity managers usually earn income from a combination of a management fee based on total commitments plus an enhanced carried interest, which is based on the performance of the fund relative to a benchmark. Captive fund managers usually do not charge any management fee.

Although this independent sector is dominated by the larger buy-out focused funds, such as Actis Africa, Brait Private Equity and Ethos Private Equity, we continue to see a prevalence of second tier private equity fund managers. These also include some earlier stage venture capital funds such as Decorum Capital Partners (New Africa Mining Fund) and Triumph Venture Capital (Southern African Intellectual Property Fund).

#### Captives

Captive fund managers, specifically those in the financial services arena, dominate the local market. Captives – Financial Services manage 32%, while Captives – Other and Captives – Government each manage 18% of total funds under management at 31 December 2005. This is in stark contrast to the international experience which has seen most captives converting into independent third party fund managers over time. This is partly because many international captives elected to exit from the private equity market when the market softened a few years ago, resulting in significant write-offs. Also, the continued preference for later-stage deals in the domestic market is in keeping with the risk appetite of a captive player.

<sup>1</sup> In the US, independent funds are normally structured as Limited Liability Partnerships.

<sup>2</sup> Referred to as limited partners in the US.

Should the quantum of funds allocated to true venture capital increase then it is likely that the captives' contribution would be diluted.

Significant captive funds include corporate private equity players (classified as Captives – Other in this survey) such as Business Partners and VenFin and Captives – Financial Services private equity players such as ABSA Corporate & Merchant Bank, Investec, Nedbank Capital Private Equity, Old Mutual Asset Managers, RMB (Ventures and Corvest), Sanlam Private Equity (a division of Sanlam Life Insurance Limited) and Standard Bank Private Equity.

Examples of private equity portfolios of government and DFIs (referred to as Captives – Government in this survey) include the Industrial Development Corporation (IDC), NEF Trust and the Southern Africa Enterprise Development Fund. Whilst DFIs are not significant players in private equity in North America and Western Europe, they do have a focus on other developing economies including those of Eastern Europe and Africa. South Africa is not an exception owing to the more active role that the South African government and international DFIs have taken in funding investment in the country.

Determining the level of private equity industry activity is not an easy task. Whilst certain parties lobby for a more inclusive approach to measurement, others believe that overstating the level of local activity is a disservice to the industry as this could possibly reduce the appetite of DFIs and foreign investors to commit funds to South Africa in favour of other under-funded emerging markets. The "purists" also argue that this survey should only measure the activity of the independent funds, as these form the core of the professionally managed private equity industry both locally and globally. This, however, would negate the significant role played by corporates, banks and DFIs in private equity in South Africa. Thus, for the purposes of presentation, and elimination if deemed necessary by specific users, we have presented data split, wherever possible, between the various types of fund managers.

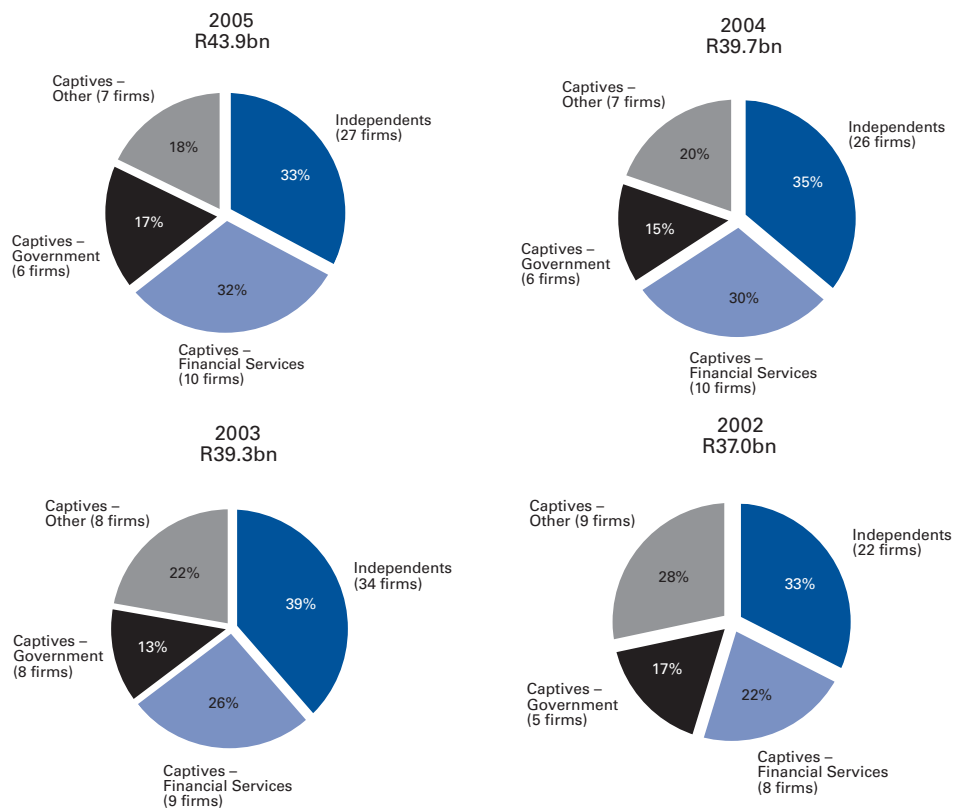
## Funds under management

Our research shows that South Africa's private equity industry now boasts total funds under management of R43.9 billion (inclusive of undrawn commitments of R15.6 billion). This reflects an increase of 10% from funds under management at 31 December 2004 of R39.7<sup>1</sup> billion (inclusive of R13.8 billion undrawn commitments). This represents a compound annual growth of 5% over the last 6 years of total funds under management.

Captives – Financial Services have had the largest growth in total funds under management with an increase of R2.1 billion from 31 December 2004 to 31 December 2005. This 18% increase is likely as a result of the continued increased private equity investment allocations by financial services groups to meet their BEE charter obligations. Funds under management by Captives – Financial Services also increased by R1.7 billion from 31 December 2003 to 31 December 2004 (16% increase).

Captives – Government also increased their total funds under management by R1.9 billion from the end of 2004 to 2005 (33% increase). This is a continuation of the trend seen in 2004 where funds under management by Captives – Government also increased by R583 million from 2003 levels.

Figure 2: Total funds under management at 31 December



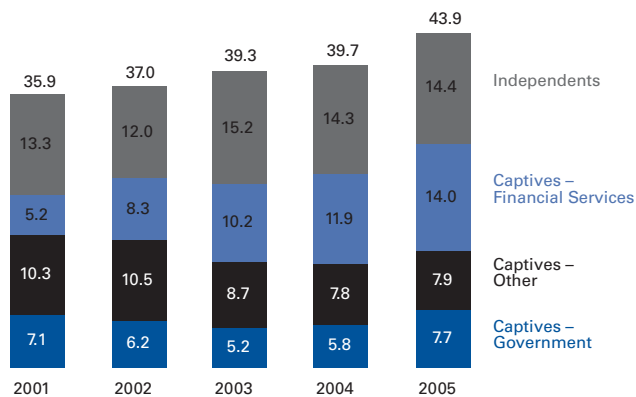
<sup>1</sup> Although our 2004 survey reported total funds under management of R42.7 billion at 31 December 2004, the 2004 results now include certain private equity funds which were excluded last year and vice versa. The restatement of comparative data by certain participants has also been a major contributor to the restatement. In analysing the research it is important to note that, in most cases, only comparative 2004 information has been restated with pre-2004 information being extracted from the 2004 survey and is therefore not directly comparable.

Fund raising activity during 2005 has remained at almost the same levels as 2004, while investment activity is down on 2004 levels. These aspects are discussed in further detail in the 'Fund raising activity' and 'Investment activity' sections of this survey.

The immediate effect of returning funds to investors, mainly as a result of exits, is to reduce funds under management. The historic low level of exits, particularly exits via IPOs, may have been hampering the ability of private equity players to raise further funds from third party investors. A high level of disposals has again continued in the current year and is discussed further in the 'Exits' section of this survey.

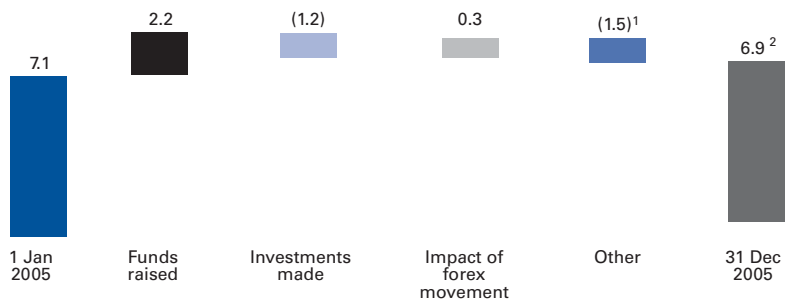
The total of all captive funds accounts for approximately 67% of the total funds under management at 31 December 2005. Independent funds make up the remaining 33% of total reported funds under management at 31 December 2005. These funds, which generally manage third party funds, maintained funds under management at virtually 2004 levels with an increase from R14.3 billion at 31 December 2004 to R14.4 billion at 31 December 2005.

Figure 3: Composition of total funds under management at year end (Rbn)



Although total undrawn commitments are R15.6 billion (2004: R13.8 billion), R6.9 billion (2004: R7.1 billion) reflects the undrawn commitments of third party raised funds committed to independent fund managers.

Figure 4: Roll-forward of undrawn commitments from third parties to independent fund managers (Rbn)



<sup>1</sup> Comprises mainly investments made during 2005 outside of South Africa from undrawn commitments at 1 January 2005 and thus not included in the data presented.

<sup>2</sup> Independents have reported a further R354 million (2004: R326 million) of undrawn commitments that are available for investment but have not been raised from third parties. These funds comprise mainly their own balance sheet cash resources.



The weakening of the Rand by some 13% against the US Dollar from 31 December 2004 to 2005 (\$5.7 to \$6.4 to the Rand) had the effect of increasing committed but undrawn funds in local currency terms at the end of 2005. This was offset by the strengthening of the Rand:Euro exchange rate by 2% (€7.76 to €7.62 to the Rand). The net effect is an estimated net increase of approximately R284 million of funds under management in local currency terms at 31 December 2005.

There is still a significant amount of undrawn commitments which bodes well for seekers of capital. These funds often work on a “use it or lose it” principle, meaning that there will be a continual incentive for fund managers to invest their funds as soon as possible. The timing, however, is also dependent on prevailing economic factors.

Figure 5a: Total funds under management at year end split by undrawn commitments and investments (Rbn)

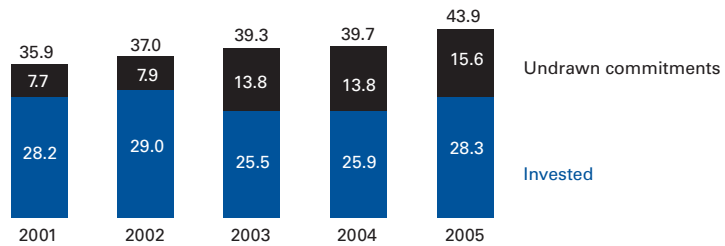
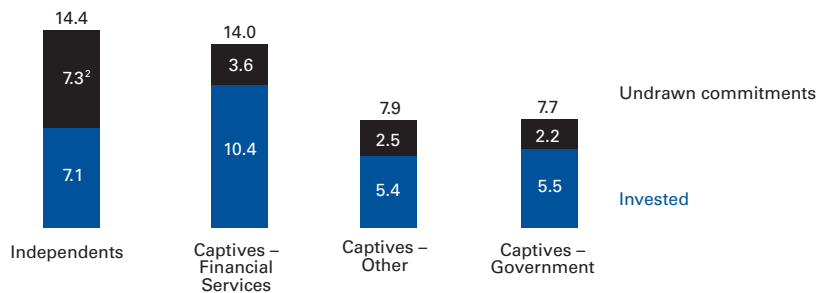


Figure 5b: Total funds under management at 31 December 2005 split by undrawn commitments<sup>1</sup> and investments (Rbn)



The level of undrawn commitments at the end of 2005 must be seen in the context of the fund raising activity of 2004 and 2005 (over R2.2 billion during each year) and the record level of R4.9 billion during 2003, most of which was raised toward the end of that year. This does indicate the length of time involved in identifying opportunities and ultimately investing funds.

<sup>1</sup> Captive funds, and specifically Captives – Financial Services, generally have no fixed commitments, although this is not necessarily indicative of their capacity to make additional private equity investments. In certain instances, captive funds have reported the cash available for private equity investments as undrawn commitments while others have only reported unrealised investments without including the “pool” of available funds as undrawn commitments.

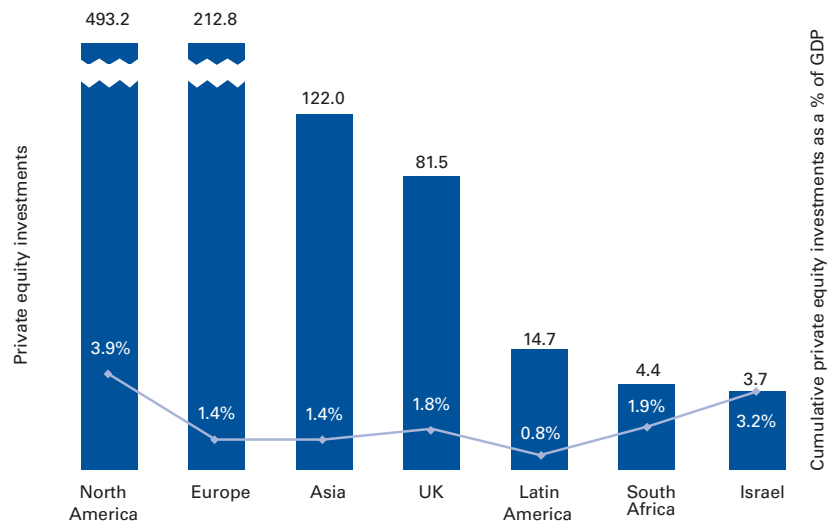
<sup>2</sup> The undrawn commitments at 31 December 2005 of Independents include R6.9 billion raised from third parties and R354 million of own funds.

Of the total R7.3 billion (2004: R7.4 billion) undrawn commitments available for independent fund managers at 31 December 2005, only R438 million (2004: R587 million) is available from fund managers who indicate that they focus on early stage investments. A further R1.8 billion (2004: R391 million) is available from captives who also focus on investing in early stage businesses.

Assuming that fund raising and investment activity continues at R2.2 billion and R4.9 billion respectively per annum, it will take survey participants almost 6 years to exhaust the R15.6 billion committed but undrawn funds at 31 December 2005.

Although our industry is small in comparison with that of the US, it is significant in relation to many European, Asian and Latin American countries. In terms of total funds under management relative to GDP, South Africa's private equity industry (1.9%) is higher than the European average (1.4%), but is still some way off that of North America (3.9%) and Israel (3.2%).

Figure 6: Size of international private equity markets<sup>1</sup> (US\$bn) relative to GDP



<sup>1</sup> 31 December 2005 for South Africa, 31 December 2004 for all others. North America is based on cumulative investments at cost made from 1998 to 2004. 1998 to 2003 data drawn from the PWC 3i Global Private Equity survey (covering the 2003 calendar year) while 2004 data only includes the US as reported by the MoneyTree Survey prepared by PWC and Thomson Venture Economics (venture capital component) and Thomson Venture Economics (buy-outs component). Europe and UK data has been sourced from EVCA/Thomson Venture Economics/PWC and converted at €1=US\$1.36. Asian data obtained from Private Equity Asia. Latin America data was obtained from the LAVCA and based on cumulative investments at cost made from 1998 to 2004. South Africa data excludes undrawn commitments to allow for comparability and converted at US\$1=R6.42. Israeli data was obtained from the MoneyTree Survey prepared by Kesselman & Kesselman PWC and based on cumulative investments at cost made from 1998 to 2004. GDP for South Africa was sourced from Statistics South Africa (estimate at March 2006). Europe and UK GDP as reported by EVCA/Thomson Venture Economics/PWC. All other GDP data was obtained from The World Bank Development Indicators.

The depreciation of the Rand during 2001 caused South Africa to slip off the “Top 20” rankings of investment activity during that year. The recovery to 19<sup>th</sup> during 2002, 16<sup>th</sup> during 2003 and 12<sup>th</sup> during 2004 was on the back of the strengthening Rand and the increased level of activity. Using 2005 figures for South Africa as included in this survey, and 2004 or 2003 for all other countries, South Africa is reflected at 16<sup>th</sup> place on the global rankings measured in terms of investment activity in local currency terms.

**Figure 7: Country ranking – Investment activity<sup>1</sup>**

Country	Investments (Rbn)	Country	Investments (Rbn)	Country	Investments (Rbn)			
1	US	523.6	11	Italy	11.9	21	Belgium	2.4
2	UK	152.9	12	Korea	9.7	22	Switzerland	2.2
3	Japan	42.6	13	Canada*	7.6	23	Finland	1.8
4	France	41.9	14	India*	6.8	24	Bulgaria	1.7
5	Germany	30.2	15	Indonesia*	4.9	25	Portugal	1.3
6	Spain	15.8	<b>16</b>	<b>South Africa</b>	<b>4.9</b>	26	Austria	1.1
7	Netherlands	13.3	17	Singapore*	4.1	27	Poland	1.1
8	Sweden	13.0	18	Israel	3.6	28	Hungary	1.0
9	Australia	12.9	19	Denmark	3.2	29	Ireland	0.5
10	China*	12.6	20	Norway	2.5	30	Romania	0.3

If fund raising activity was used as the measure for the ranking, South Africa would be placed 19<sup>th</sup> (2004: 11<sup>th</sup>) as seen below.

**Figure 8: Country ranking – Fund raising activity<sup>1</sup>**

Country	Investments (Rbn)	Country	Investments (Rbn)	Country	Investments (Rbn)			
1	US	444.0	11	Israel	7.7	21	India*	2.0
2	UK	80.6	12	Belgium	4.5	22	Finland	1.8
3	Sweden	29.2	13	Norway	4.5	23	Australia*	1.5
4	Netherlands	25.7	14	Denmark	4.3	24	Switzerland	1.4
5	France	19.3	15	Brazil	3.1	25	Austria	1.0
6	Germany	15.9	16	China*	2.6	26	Hungary	0.9
7	Italy	13.3	17	Poland	2.4	27	Argentina	0.5
8	Spain	12.6	18	Mexico	2.2	28	Chile	0.4
9	Canada	9.0	<b>19</b>	<b>South Africa</b>	<b>2.2</b>	29	Ireland	0.4
10	Japan	8.8	20	Portugal	2.0	30	Croatia & Slovenia	0.3

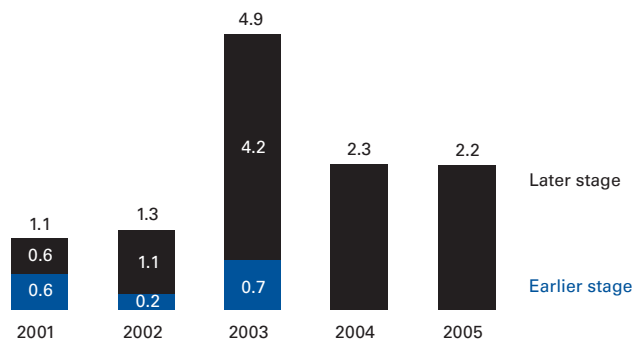
<sup>1</sup> 2005 figures for South Africa, 2004 for all others unless otherwise indicated by an \* which indicates 2003. US Dollars/Euros converted to Rands using the average spot rate for 2004 of US\$1=R6.45/€ 1=R8.01 or 2003 of US\$1=R7.56/€ 1=R8.55, as applicable.

## Fund raising activity

Figure 9 highlights a slight decrease in the amount of funds raised from R2.3 billion in 2004 to R2.2 billion in 2005 (1% decrease).

Almost all the fund raising activity of 2005, like 2004, was by later stage funds since early stage funds only raised R1 million (2004: R18 million) during 2005.

**Figure 9: Funds raised during the year analysed by fund stage (Rbn)**



All reported fund raising activity during 2004 and 2005 was, as expected, by independents.

The major fund raisers<sup>1</sup> for 2005, which consented to their public disclosure, are listed below (fund/s and amount raised in brackets):

- Actis Africa (Actis Africa Fund I, II and CIFA – R1.316 billion / US\$205 million)
- Actis Africa (Actis Africa Empowerment Fund – R300 million / US\$50 million)
- Treacle Private Equity (Treacle Fund II – R303 million)

The major fund raisers<sup>1</sup> of 2004 are listed below (fund and amount raised in brackets):

- African Infrastructure Investment Managers (African Infrastructure Investment Fund – R1.320 billion)
- Tiso Private Equity (Tiso Private Equity Fund 2 – R352 million)
- Zephyr Management Africa (PAIP-PCAP – R345 million)

<sup>1</sup> This information is publicly available or the parties have consented to the disclosure of the information.

Fifty-eight percent of all third party funds raised during 2005 were from governments and DFIs (specifically CDC which is wholly owned by the British government) followed by corporates (14%) and banks (10%). Pension and endowment funds contributed 6% of reported funds raised during 2005.

Figure 10a: Sources of third party funds raised during 2005 (Rm)

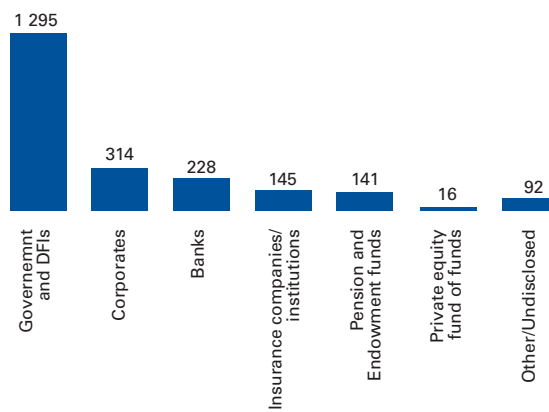
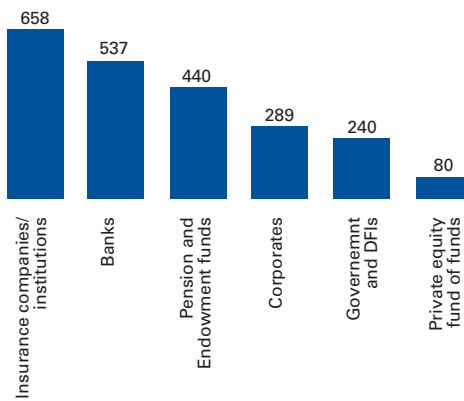
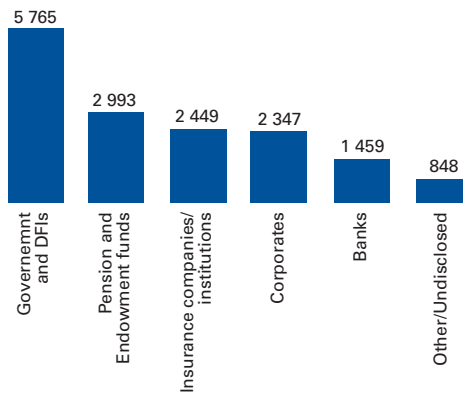


Figure 10b: Sources of third party funds raised during 2004 (Rm)



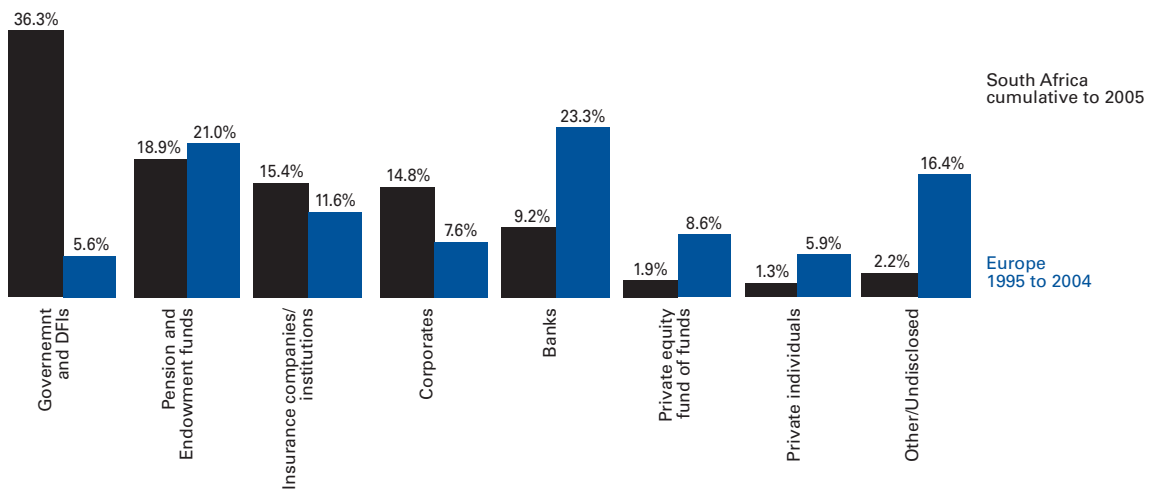
Thirty-six percent of cumulative third party funds raised and not returned to investors at 31 December 2005 have been from governments and DFIs followed by pension and endowment funds with 19%.

Figure 11: Sources of cumulative third party funds raised to 31 December 2005 (Rm)



The relatively large contributions from governments and DFIs to the local industry are different from Europe where they had only contributed 5.6% of cumulative funds raised from 1 January 1995 to 31 December 2004. Banks were the main source of European funds raised during the same period.

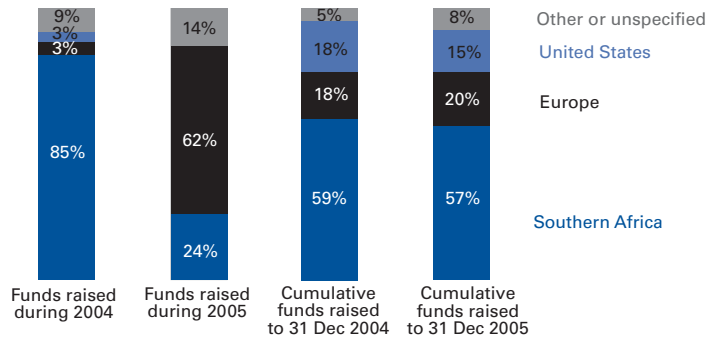
Figure 12: Sources of cumulative third party funds raised – South Africa compared to Europe<sup>1</sup>



<sup>1</sup> European data sourced from EVCA/Thomson Venture Economics/PWC

European institutional investors have historically been generally reluctant to invest in private equity. A major reason for this had been, as in South Africa, the reluctance of insurance companies and the pension fund trustees to allow much investment of this type because returns are hard to measure and investments may be unsaleable for several years. US pension funds, who do not appear to share these concerns about private equity, have consequently been significant investors into non-US private equity funds and significant amounts of European funds raised have been sourced from the US. However, 2001 saw this trend being broken with pension funds overtaking banks as the largest source of funding in Europe, although banks regained the overall lead again during 2002. This nevertheless indicates that private equity is becoming a more attractive asset class for institutional investors.

Figure 13: Geographic sources of third party funds raised



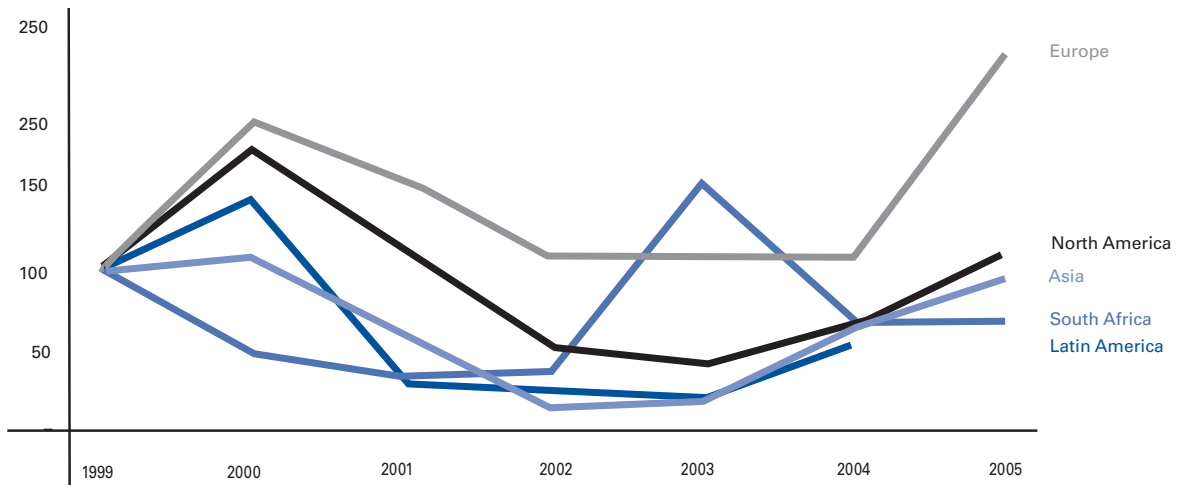
Europe, and mainly the UK, contributed 62% of all third party funds raised during 2005 followed by Southern African sources with 24%. No fund raising was reported from US sources during 2005.

Local funders have contributed substantially to fund raising efforts during the last few years, which has resulted in cumulative funds raised and not yet returned to investors at 31 December 2005 being 57% from Southern African sources (2004: 59%). Europe, with 20%, and the US, with 15%, have been the other main contributors. All other sources, including unspecified geographical sources, contributed the remaining 8%.

Figure 14 below indicates that South Africa seems to buck international trends when it comes to fund raising activity. While the rest of the globe's historic fund raising peaked during 2000, South Africa's did not. South Africa's fund raising record year to date was during 2003, on the back of some US\$350 raised by Actis Africa during that year.

There has been a declining annual fund raising trend internationally since 2000, although it does appear that 1999 levels are being approached. Fund raising levels are, however, some way off 2000 records. The obvious exception is Europe that had been stagnant for the last few years. Preliminary data recently released indicates that some €60 billion was raised during 2005. This is an all-time record and is on the back of fund raising by five mega buy-out fund managers that each raised over €3 billion during 2005<sup>1</sup>.

Figure 14: Global and South African fund raising activity during the year (1999 = 100)



We expect 2006 fund raising levels in South Africa to surpass the 2003 record level as it is general market knowledge that large local private equity players, such as Brait Private Equity and Ethos Private Equity, will close new funds during 2006.

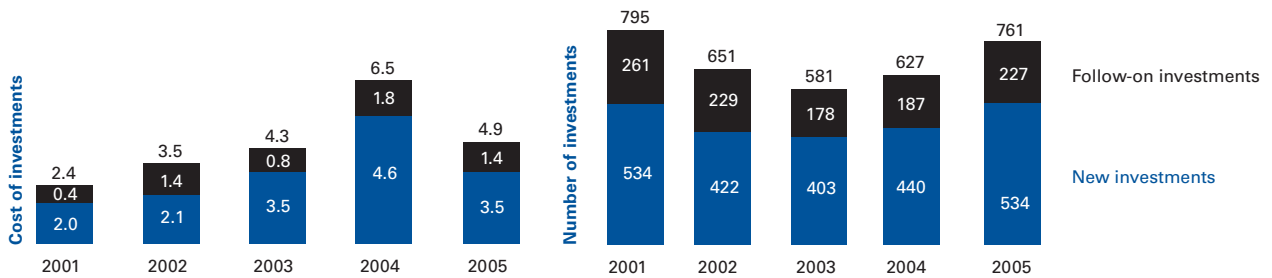
<sup>1</sup> Preliminary 2005 data compiled on behalf of EVCA by Thomson Financial and PWC



## Investment activity

Reported private equity investments decreased by 24% from R6.5 billion during 2004 to R4.9 billion during 2005. The total number of investments, however, increased by 134, from 627 to 761 during the same period.

Figure 15: Cost (Rbn) and number of investments made during the year analysed by new and follow on investments<sup>1</sup>

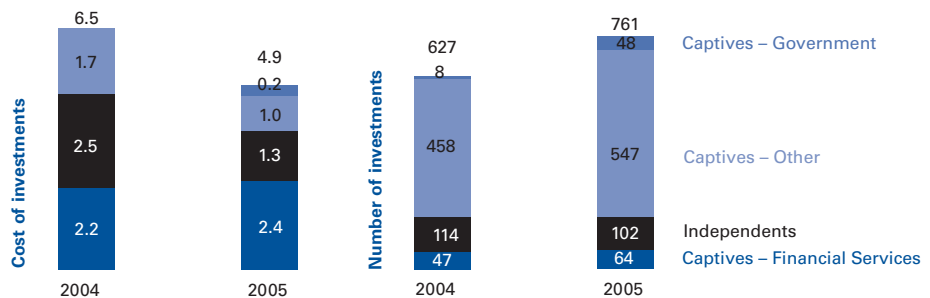


The activity above, measured in terms of cost, is disappointing when measured against total M&A activity in South Africa during 2005, which increased by 63% from R165 billion during 2004 to R269 billion during 2005. The increase of 21% in the number of private equity investments from 2004 to 2005 is, however, encouraging since the total number of local M&A transactions decreased by 9% during the same period<sup>2</sup>.

The overall average investment deal size has decreased from R10.3 million for the 2004 year to R6.4 million during 2005. The new investments average deal size decreased from R10.5 million to R6.6 million while follow-on investments average deal size decreased from R9.9 million to R6 million from 2004 to 2005.

In terms of the number of reported investments, Business Partners (previously The Small Business Development Corporation), classified as a Captive – Other fund, was again by far the most active investor player in the South African private equity market, contributing 71% of the total number of reported investments made during 2004 and 2005, although only 10% (2004: 6%) in terms of the cost of total investments made during the year.

Figure 16: Cost (Rbn) and number of investments made during the year analysed by type of fund manager



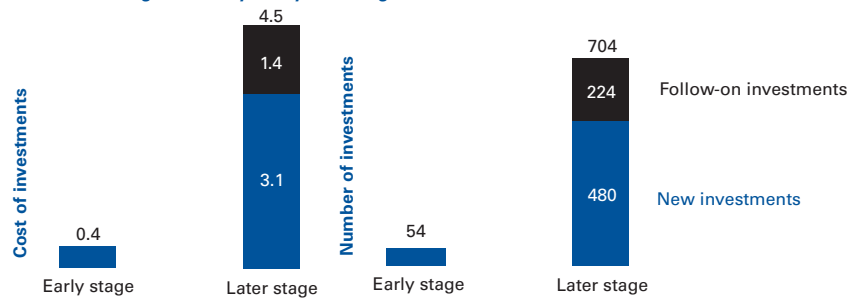
<sup>1</sup> The investment activity reported in this survey excludes the acquisition of Waco for R5.4 billion (before accounting for net debt i.e. enterprise value) by CCMP Capital Asia, JP Morgan Partners Global Fund and management. The investment was not included in the survey since the private equity acquirers do not have a local office and the majority of Waco's revenue is also generated off-shore.

<sup>2</sup> Total M&A activity as reported by Mergers & Acquisitions: A Review of Activity for the Year 2005 (Ernst & Young)

If Business Partners' investments are excluded, the total average deal size increases to R19.7 million (2004: R33.6 million), the new investments average deal size increases to R19.9 million (2004: R34.5 million) and follow-on investments average deal size increases to R19.5 million (2004: R31.5 million).

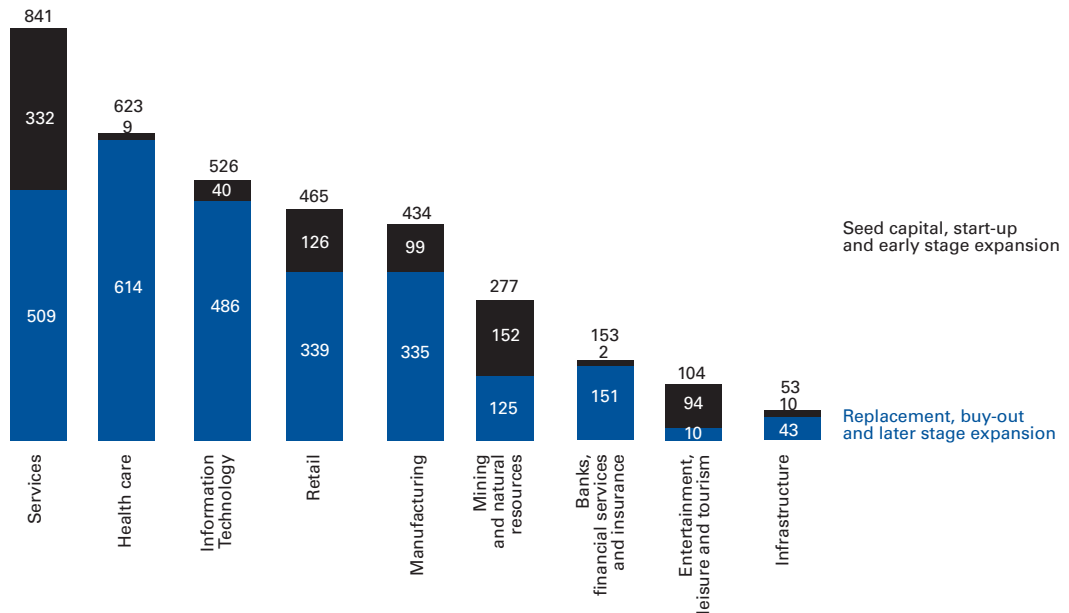
Later stage focused funds continued to dominate investment activity during 2005.

Figure 17: Cost (Rbn) and number of investments made during 2005 analysed by fund stage<sup>1</sup>



Twenty-nine percent (R1.4 billion) of investments made during 2005 were classified in the other sector category or not classified at all. Of the investments made classified into sectors, 24% were in the services sector, 18% in health care and 15% in the information technology sector.

Figure 18: Investments at cost made during 2005 analysed by sector and stage (Rm)

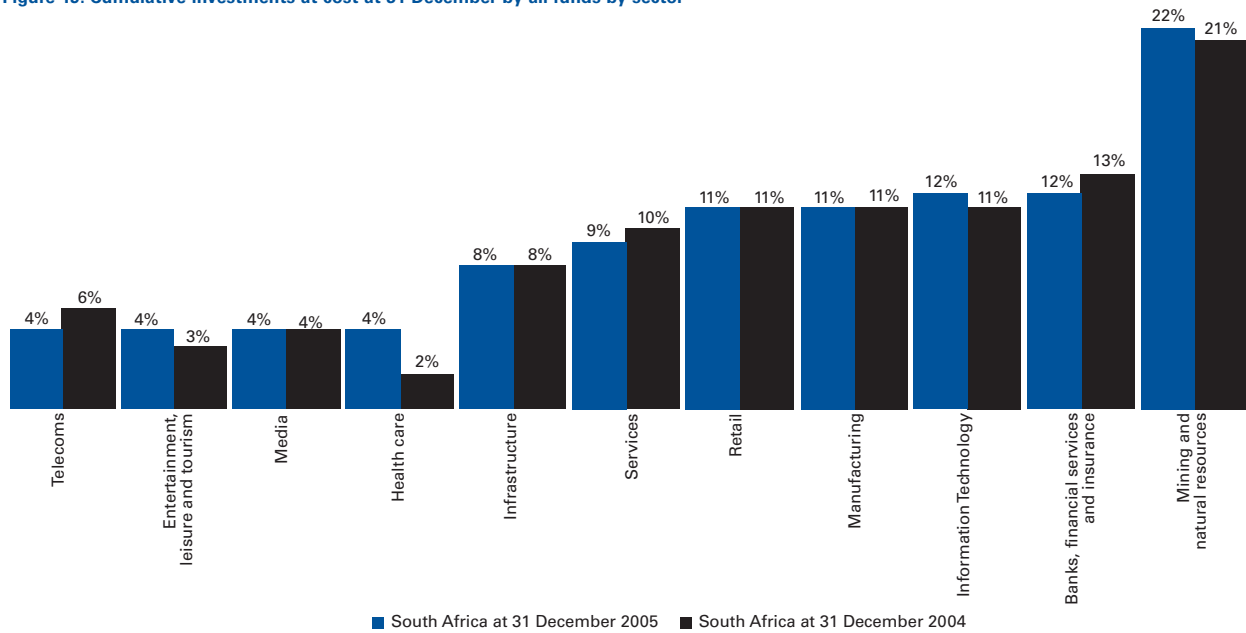


European data indicates that the consumer related businesses and other services sectors were the largest recipients of European investments during 2004 with 23% and 14% respectively.

<sup>1</sup> Three early stage follow on investments at a cost of R5.7 million are not shown in the graph.

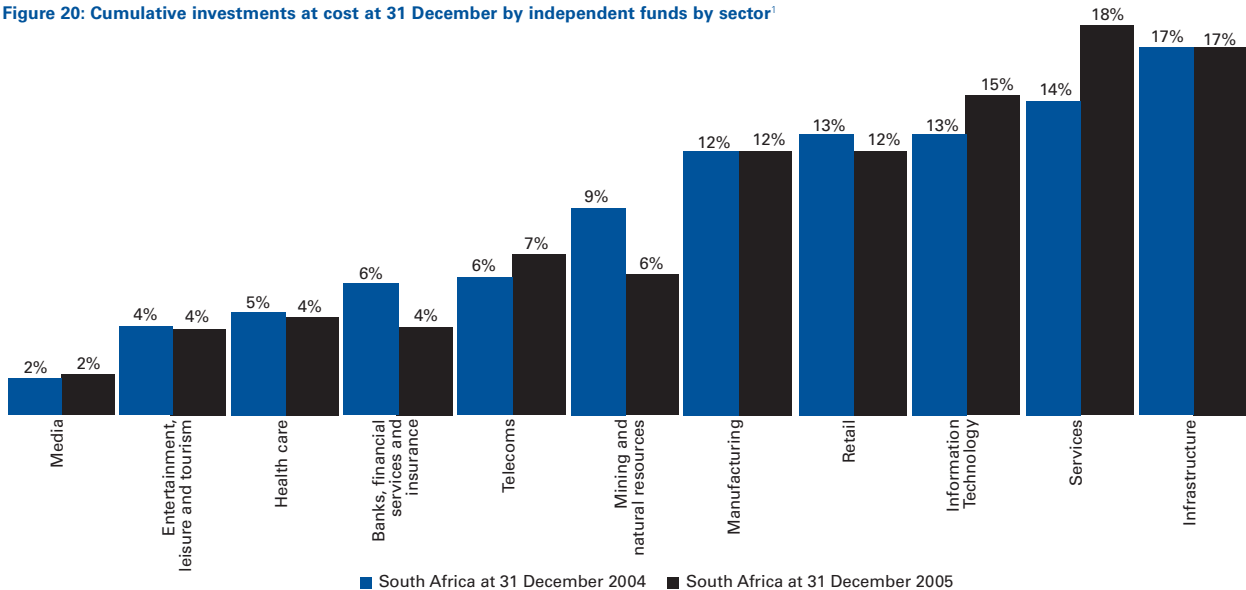
The mining and natural resources sector remained the dominant cumulative recipient of private equity funding across all types of funds. It comprises 22% of all classified investments at 31 December 2005 followed by banks, financial services and insurance and information technology with 12% each.

Figure 19: Cumulative investments at cost at 31 December by all funds by sector<sup>1</sup>



The analyses of independents' investment portfolios is shown below. It is evident that captives have a significant "exposure" to the mining and natural resources sector since this category ranks only 6<sup>th</sup> with 9% for independents. Infrastructure accounts for 17% of all independents' unrealised investments at 31 December 2005.

Figure 20: Cumulative investments at cost at 31 December by independent funds by sector<sup>1</sup>



<sup>1</sup> Investments classified as other or not classified at all have been excluded. These accounted for 26%/R7.2 billion (2004: 25%/R6.6 billion) for all participants' and 13%/R920 million (2004: 8%/R558 million) for independents' investments at 31 December 2005.

High technology investments have generally seen a significant portion of global private equity and venture capital investments. The highest percentage contribution was seen during the height of the IT investment bubble during 2000 when high-tech investments contributed an estimated 61% of total global investments during that year. Its global proportion has decreased since then and was 33% of total global investments i.e. \$38 billion of a total \$115 billion for 2003<sup>1</sup>.

Investments into seed, start-up and early stage entities remain at insignificant levels in South Africa. The largest cost of cumulative investments is still deployed into replacement and buy-out transactions, although the number of transactions in the sector only accounts for 18% of cumulative investments at 31 December 2005. This is indicative of the proportionally larger transaction values for these types of deals.

Figure 21: Investments based on cost analysed by stage<sup>2</sup>

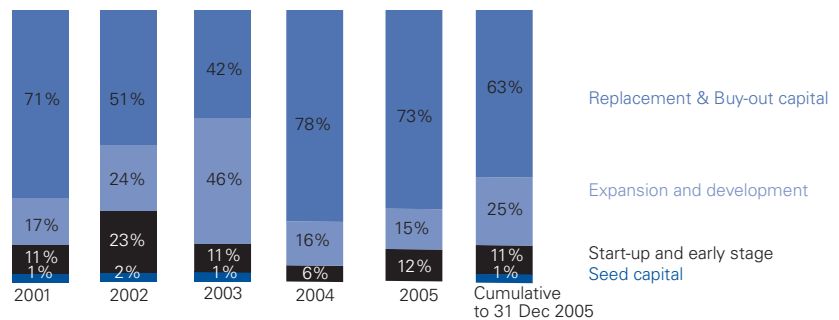
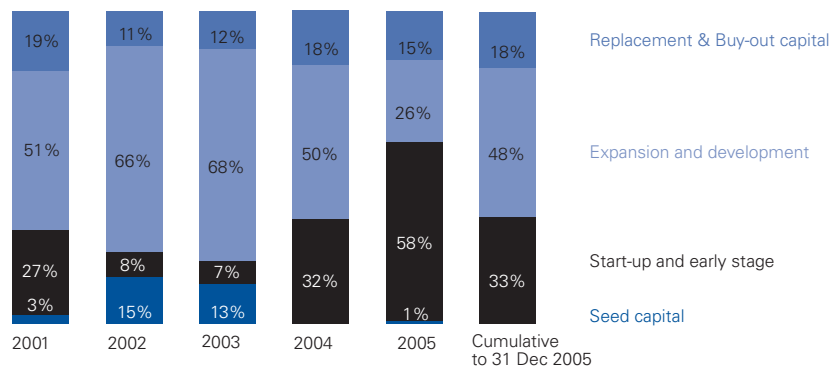


Figure 22: Investments based on number analysed by stage<sup>2</sup>



South Africa's tendency towards later stage investments is not unlike the global trend where early stage investments, which include seed and start-up, have decreased from 21% of investments during 2000 to a mere 6% in North America during 2003 and 6% for Europe during 2004. Globally, expansion and development investments have also decreased from 46% of investments during 2000 to 18% during 2003. Buy-outs accounted for 70% of all European investments during 2004.

<sup>1</sup> PWC 3i Global Private Equity 2004 survey (relates to the 2003 calendar year)

<sup>2</sup> Investments not classified by stage have been excluded.

Figure 23 below provides an analysis of the top 10 largest reported private equity transactions in 2005.

**Figure 23: The ten largest private equity transactions reported during 2005 based on total funding raised**

<i>Name of investments</i>	<i>Equity provider/s</i>	<i>Debt provider/s</i>	<i>Total funding raised</i>	<i>Type of investments</i>	<i>Private Equity Fund's equity interest</i>	<i>Part of syndication</i>	<i>BEE credentials</i>
Life Healthcare (formerly Afrox Healthcare)	OMLACSA <sup>1</sup> , RMB	RMB, Old Mutual, Investec, Standard Bank, Sanlam	R4.3bn	LBO	22%	Yes	Black company
Savcio Holdings (repairs and services divisions of Delta)	Ethos, Actis, OMAM <sup>2</sup> , AKA Capital, Sphere Holdings	Barclays, ABSA	R1.3bn	LBO	69%	Yes	Black empowered company
Defy Appliances	Standard Bank Private Equity	Standard Bank	R860m	MBO	50% minus 2 shares	Yes	Black empowered company
FCMS BEE	RMB Corvest, Safika Investments, Zico Investments	Standard Bank	R345m	Replacement capital	Not disclosed	Yes	Black empowered company
Peter's Papers	Actis	Management	R165m	MBO	49%	No	Black empowered company
Senwes	Treacle, Royal Bafokeng Finance	–	R122m	Replacement capital	27%	Yes	Black empowered company
Fidelity Supercare	RMB Corvest, Zico Investments	Nedbank	R100m	Replacement capital	Not disclosed	Yes	Black empowered company
SA Leisure	RMB Corvest	Nedbank	R50m	LBO	Not disclosed	No	Black empowered company
Siel (SA)	RMB Corvest	Nedbank	R50m	MBO	Not disclosed	No	Black empowered company
Fundiswa Investments	RMB Ventures	RMB	R47m	MBO	20%	No	Black empowered company

<sup>1</sup> Old Mutual Life Assurance Company of South Africa

<sup>2</sup> Old Mutual Asset Managers

Figure 24 below provides an analysis of the top 10 largest reported private equity transactions in 2004, as reported in last year's survey.

**Figure 24: The ten largest private equity transactions reported during 2004 based on total funding raised**

<i>Name of investments</i>	<i>Equity provider/s</i>	<i>Debt provider/s</i>	<i>Total funding raised</i>	<i>Type of investments</i>	<i>Private Equity Fund's equity interest</i>	<i>Part of syndication</i>	<i>BEE credentials</i>
Metcash Trading Africa	Nedbank, OMLACSA <sup>1</sup>	Nedbank, Investec, OMSFIN <sup>2</sup> , Absa, Commerzbank	R2.1bn	MBO	39% <sup>3</sup>	Yes	Black empowered company
Net1 U.E.P.S. Technologies Inc (Aplitec)	Brait, Southern Cross Capital, FFNP Asset Management	–	R1.5bn	Later stage expansion capital	31%	Yes	Not empowered
Alexander Forbes	VenFin	–	R1.2bn	Replacement capital	25%	No	Not disclosed
Idwala Industrial Holdings	Tiso Private Equity, RMB	RMB, Nedbank, FNB Corporate, Standard Bank	R972m	LBO	32%	Yes	Black company
IST	Ethos	Barclays	R326m	LBO	53%	No	Black empowered company
N3 Toll Concession	African Infrastructure Investment Managers	–	R96m	Replacement capital	10%	No	Black influenced company
Sitogo <sup>4</sup>	OMLACSA	OMLACSA	R84m	Replacement capital	67% <sup>5</sup>	No	Black company
Springlaske Holdings	New Africa Mining Fund	IDC	R68m	Later stage expansion capital	45%	Yes	Black empowered company
Yomhlaba Coal	New Africa Mining Fund	–	R43m	Early stage investment	45%	Yes	Black empowered company
Trans African Concession	African Infrastructure Investment Managers	–	R43m	Replacement Capital	6%	No	Black influenced company

<sup>1</sup> Old Mutual Life Assurance Company of South Africa

<sup>2</sup> Old Mutual Specialised Financing

<sup>3</sup> 26% by Nedbank, 13% by OMLACSA

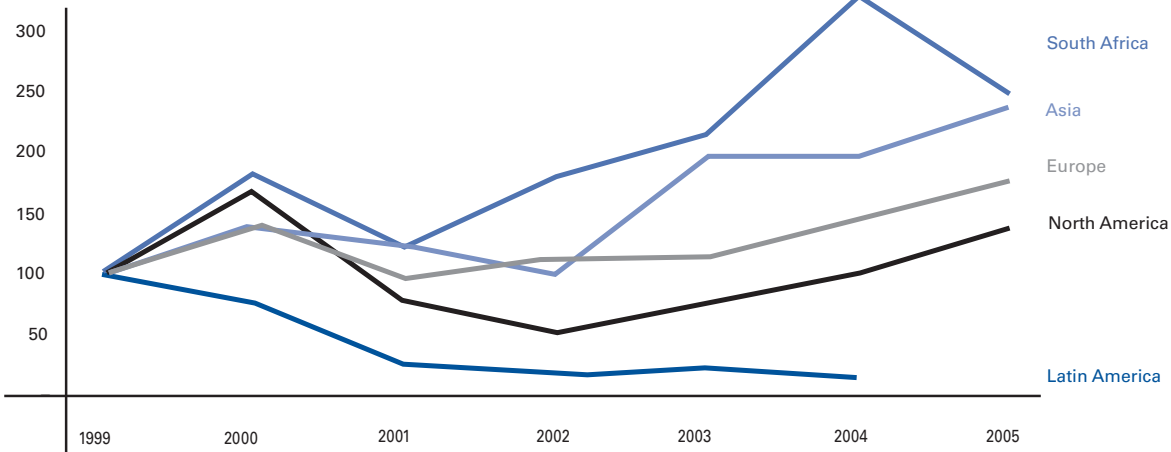
<sup>4</sup> Vehicle established for the Brait empowerment transaction

<sup>5</sup> Shareholding of "A" ordinary shares

Not unlike fund raising activity, international investment activity reached a peak during 2000. International investment activity declined in 2001 and 2002 but has recovered since 2002 to fairly healthy levels during 2005. Latin America is the exception and has remained at low levels relative to 1999 for the entire period shown below.

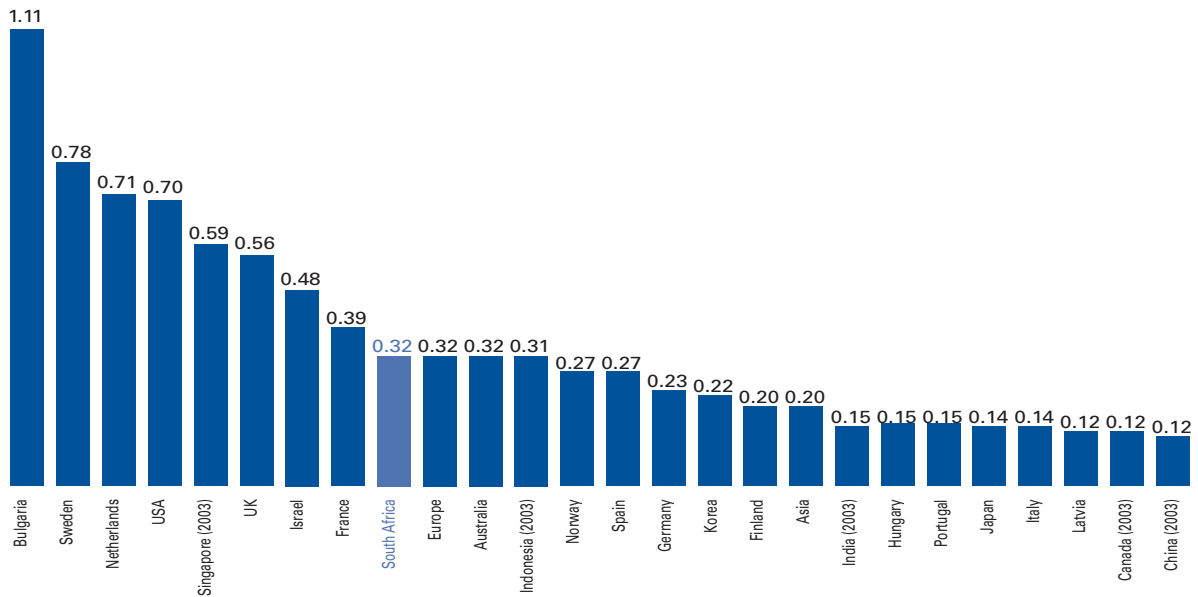
South Africa has grown year on year investment activity since 2001 although 2005's levels are down on 2004's. Private equity investors will need to substantially increase investment activity if in-roads are to be made into reducing current levels of undrawn commitments, especially if the expected significant increase in fund raising activity during 2006 materialises.

Figure 25: Global and South African investment activity during the year (1999 = 100)



South African private equity investments during 2005 comprised 0.32% of GDP. This is significantly lower than the 0.56% for the UK but in-line with the European average of 0.32% (both relating to 2004).

Figure 26: Investment activity during the year as a percentage of GDP<sup>1 2</sup>



<sup>1</sup> Ireland, Poland, Austria, Romania, Latin America (combined), Slovakia, Czech Republic, Croatia, Lithuania, Estonia and Greece reported investments during 2004 of less than 0.12% of their GDP.

<sup>2</sup> 2005 for South Africa, 2004 for all others unless otherwise indicated. European country data was sourced from EVCA/Thomson Venture Economics/PWC. All 2003 data were sourced from PWC 3i Global Private Equity 2004 survey (covering the 2003 calendar year). US data as reported by PWC/Thomson Venture Economics/NVCA MoneyTree (venture capital component) and Thomson Venture Economics (buyouts component). Latin America data was obtained from the LAVCA – Executive Briefing (10 April 2005). Israeli data was obtained from the MoneyTree Survey prepared by Kesselman & Kesselman PWC. GDP for SA was sourced from Statistics South Africa (estimate at March 2006), Europe and UK GDP as reported by EVCA/Thomson Venture Economics/PWC. All other GDP data was obtained from The World Bank Development Indicators (2004 or 2003 as applicable).

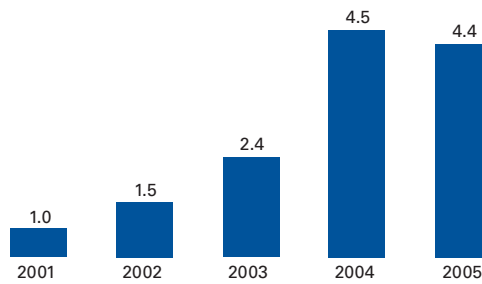


## Exits

### Total funds returned to investors

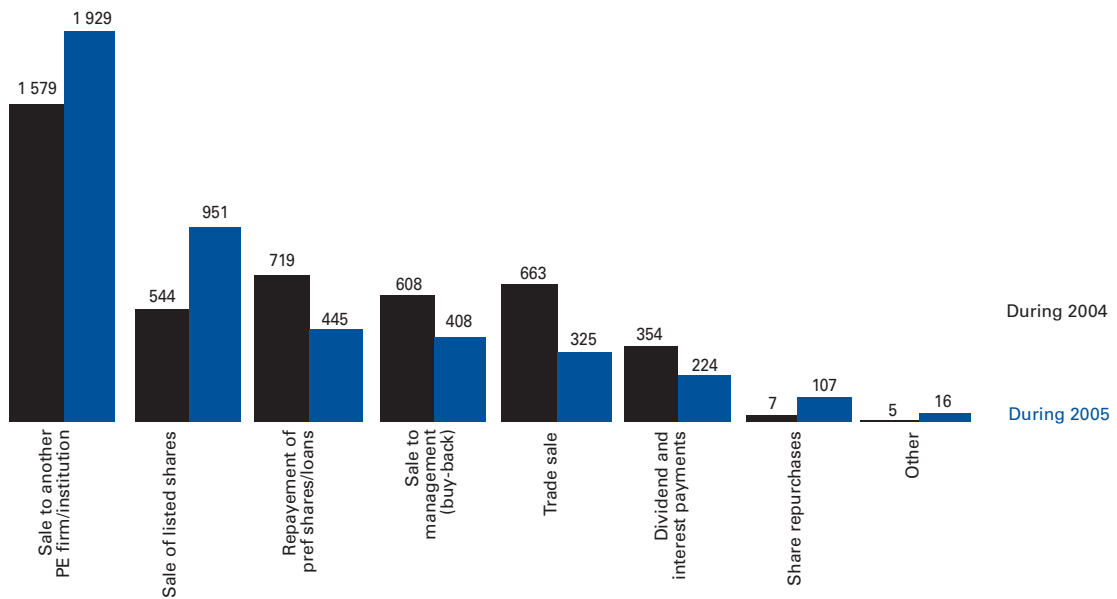
Funds returned to investors (being the proceeds on exit of investments through disposals, repayments of loans and dividend receipts) decreased by 2% from R4.5 billion during 2004 to R4.4 billion during 2005.

Figure 27: Funds returned to investors during the year (Rbn)



The analysis of funds returned to investors during 2004 and 2005 is shown below.

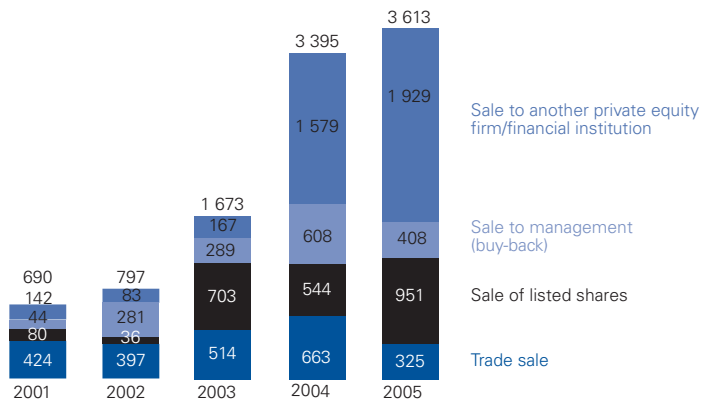
Figure 28: Analysis of funds returned to investors during 2004 and 2005 (Rm)



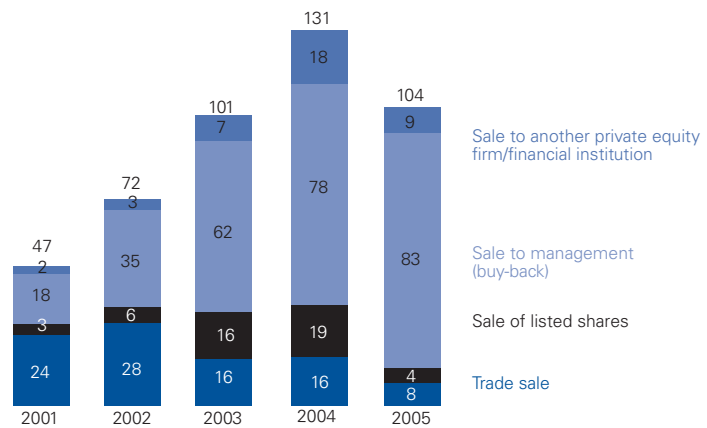
**Disposals**

The value of disposal<sup>1</sup> proceeds increased to R3.6 billion in 2005 from R3.4 billion during 2004. Disposals to other private equity firms or financial institutions was again the option which attracted the most transactions in value terms, although sales to management (buy-backs) attracted the highest number of transactions.

**Figure 29a: Analysis of disposals during the year based on proceeds (Rm)**



**Figure 29b: Analysis of disposals during the year based on number**



The average proceeds per disposal have increased from R26 million in 2004 to R35 million in 2005.

<sup>1</sup> Funds returned to investors excluding proceeds on the repayment of preference shares/loans, share repurchases and dividends and interest payments.

The reported profit (proceeds less cost of investment) on disposals for 2004 and 2005 was R2.2 billion for each year with sales to other private equity firms or financial institutions being the main contributor of 2005 with R1.3 billion (2004: R1.2 billion) followed by sale of listed shares with R556 million (2004: R83 million). Trade sales were a major contributor of profit on disposal during 2004 with R526 million (2005: R132 million).

Figure 30a: Disposal profits during 2005 (Rm)

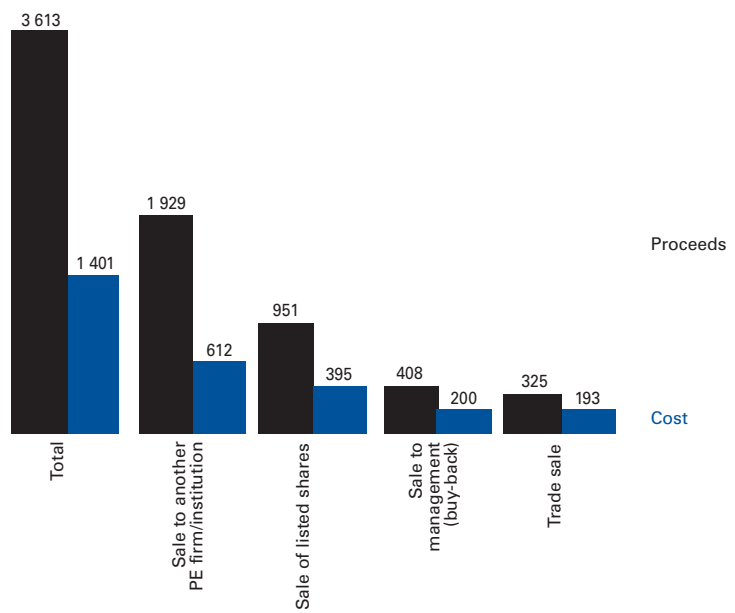
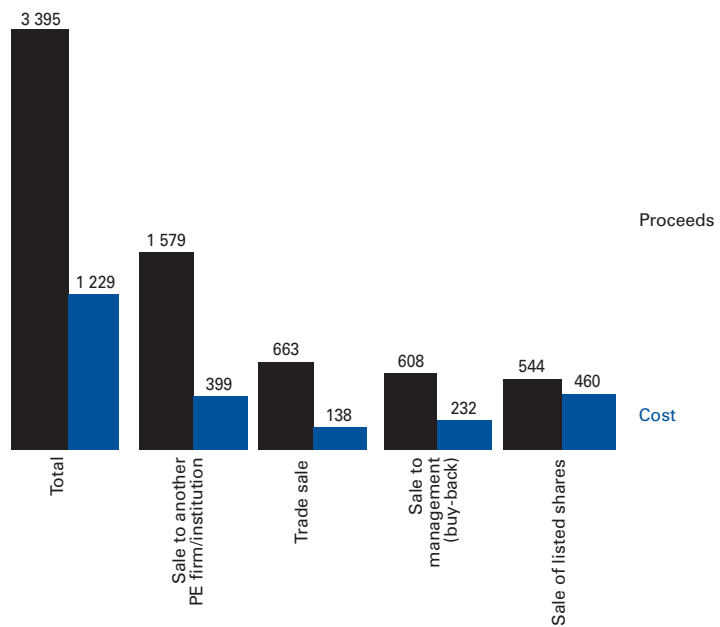


Figure 30b: Disposal profits during 2004 (Rm)



The data on the previous page includes the proceeds to the local private equity consortium members of the disposal of Waco to CCMP Capital Asia, JP Morgan Partners Global Fund and management. The reported transaction value of R5.4 billion (before accounting for net debt i.e. enterprise value) is the single largest foreign direct investment by private equity investors into South Africa to date. The transaction is also currently the largest private equity transaction ever undertaken in South Africa. Our 2000 survey, released during April 2001, reported that Ethos led a consortium buy-out of Waco for a reported enterprise value of R2.4 billion during that year. This was the largest private equity transaction in South Africa at that time, which was surpassed by the R4 billion Brait and Old Mutual buy-out of Pepkor Limited reported in our 2003 survey.

There were again no private equity exits via IPOs during 2005. 2004 saw the listing of Peermont Global Limited, the first local private equity investment listing in many years. The lack of listings remains a concern for the South African industry since it is widely accepted that one of the strongest growth factors in private equity is a healthy institutional appetite for new listings. Sustained long-term growth in the South African private equity market will be difficult to achieve unless there is an uptick in the appetite for private equity exits through new listings. The formation of the Alt-X has not resulted in the listing of any private equity investments as yet.

#### **Write-offs**

The number of write-offs reported (including sales for a nominal amount) decreased from 62 in 2004 to 33 in 2005 (R285 million during 2004 to R58 million during 2005 based on original cost).

#### **Cancelled/expired funds**

R15 million (2004: R189 million) of committed but undrawn funds at 1 January 2005 were cancelled and/or expired during 2005 and are thus no longer available for investment by the fund manager.

# Performance

## Background

Consistently measuring the performance of private equity funds is always difficult since private equity investments valuations are, by their very nature, highly subjective. The overriding principle of the International Private Equity and Venture Capital Valuation Guidelines is to show a fair valuation of investments to the investor. These guidelines were released during 2005 and adopted by 21 global private equity associations including SAVCA and EVCA.

In reviewing the IRRs reported in this survey, a number of issues need to be considered:

- The IRRs reported reflect the consolidated/aggregated returns achieved by fund managers. The reported IRRs are thus not by fund where a Fund Manager manages more than one fund.
- The IRRs reported for South Africa are gross IRRs and therefore reflect returns prior to the payment of expenses such as management fees and carried interest. Although net IRRs are the most relevant performance measure to a third party investor, which is the basis shown for the US and Europe, we believe that only a few of the independent fund managers would have been able to calculate their returns on this basis.
- When assessing the performance of private equity, it is important to focus on long-term returns. Initial results over the first two or three years of a fund can be misleading if viewed in isolation. A high short-term IRR can be achieved through a few attractive divestitures, while low rates may result from new funds only just beginning their investment activity. Any consideration of returns over the short-term must be done in combination with scrutiny of the general level of investment and divestiture activity.
- Captive funds generally do not calculate and/or report IRRs. Their fee structures are not usually linked to the achievement of prescribed IRRs. Most of the funds that reported IRRs were, therefore, independent private equity funds.

## South Africa

### IRR

It has historically been difficult to reach a conclusion on the performance level of private equity and venture capital investments in South Africa due to the limited number of respondents reporting their performance in the survey Questionnaire. The lack of sufficient comparative historic data has even been mentioned as a key issue that limits the participation by institutional investors in the local private equity industry.

In view of this low historic participation level, it was decided for last year's survey to rather request the Fund Manager's performance level in tabular format in the survey Questionnaire. This resulted in an increased level of participation in IRR reporting. The same methodology was used in the current year's survey Questionnaire.

Figure 31 presents the total IRR for realised and unrealised investments, while Figure 32 presents the IRR for realised investments only. Whilst the total IRR presents the total return of the fund since inception, including unrealised investments, the realised IRR only presents the returns of funds deployed and subsequently realised and returned to investors. This, therefore, presents a less subjective picture of fund returns (although it would exclude the negative effect of investments that are difficult to exit).

Twenty-four of the participants in the survey claimed compliance with the International Private Equity and Venture Capital Valuation Guidelines in the valuation of their unrealised investments. These did not necessarily report their IRR performance shown below.

The 2005 results in Figure 31 include the IRR levels for 24 respondents (2004: 28), managing R21.8 billion at 31 December 2005 (49% of total funds under management) (2004: R22.4 billion – 56%). Included is the response from 15 independents (2004: 19) managing 75% of the funds under management by independent fund managers at 31 December 2005 (2004: 84%). We believe that participation levels are low for captives, especially Captives - Government, since these fund managers do not always measure IRRs since they generally have other "performance" measures, such as job creation and social contribution.

**Figure 31: Total gross IRR since fund inception**

IRR	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
	2005 No. of respondents	2004 No. of respondents	2005 No. of respondents	2004 No. of respondents	2005 No. of respondents	2004 No. of respondents
Below 10%	4	8	–	–	–	–
10% – 19.9%	2	2	1	2	–	–
20% – 29.9%	4	3	2	3	–	–
30% – 39.9%	3	3	2	1	2	2
> 40%	3	4	1	–	–	–

The 2005 results in Figure 32 include the IRR levels for 17 respondents (2004: 19), managing 46% of total funds under management at 31 December 2005 (2004: 51%). Included are the responses from 11 independents (2004: 13) managing 72% of the funds under management by independent fund managers at 31 December 2005 (2004: 74%).

**Figure 32: Realised gross IRR since fund inception**

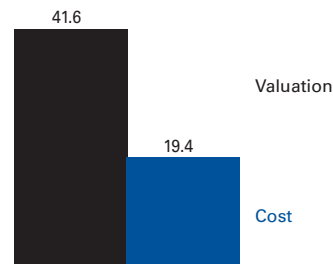
IRR	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
	2005 No. of respondents	2004 No. of respondents	2005 No. of respondents	2004 No. of respondents	2005 No. of respondents	2004 No. of respondents
Below 10%	3	4	1	1	–	–
10% – 19.9%	1	1	–	1	–	–
20% – 29.9%	1	1	1	–	–	–
30% – 39.9%	3	2	2	3	–	–
> 40%	2	4	1	–	2	2

**Investments at latest valuation**

The 2005 survey was the first year that participants were requested to provide the value of unrealised investments based on their latest valuation.

The valuation of investments made at a cost of R19.4 billion was provided, representing 68% of all unrealised investments at 31 December 2005. The latest valuation was not provided for all other investments or the respondents indicated that investments are only valued on a cost basis.

**Figure 33: Unrealised investments at 31 December 2005 – cost compared to valuation (Rbn)**



The data above indicates that the implied “exit” multiple, i.e. assuming investments are disposed of at valuation value, is 2.1 times at 31 December 2005.

### US and Europe

Internationally, the net returns<sup>1</sup> achieved by private equity investments have outperformed the public equity markets over the medium and long term. The returns for various investment horizons for the US and Europe are shown below.

**Figure 34: US and European returns**

	US (at 30 September 2005) <sup>2</sup>					Europe (at 31 December 2005) <sup>3</sup>			
	1 Year %	3 Year %	5 Year %	10 Year %	20 Year %	1 Year %	3 Year %	5 Year %	10 Year %
Early stage	10.4	0.4	-13.2	46.8	20.2	4.9	-2.3	-7.5	-0.1
Development	N/A	N/A	N/A	N/A	N/A	12.2	0.9	-1.6	8.8
Balanced	27.2	9.3	-5.6	20.8	14.6	32.7	2.8	-2.7	7.6
Later stage	13.1	6.1	-7.7	13.0	13.7	N/A	N/A	N/A	N/A
All venture capital	19.7	4.9	-9.3	26.5	16.5	25.4	0.6	-4.0	5.3
Buy-outs	32.5	14.7	3.1	8.7	13.3	20.9	7.9	5.0	12.6
Mezzanine / Generalist	8.8	4.5	2.4	6.6	9.0	51.2	1.2	-4.8	9.7
All private equity	27.0	11.3	-0.8	12.4	14.3	24.1	5.2	1.2	10.2
NASDAQ	13.4	22.4	-10.1	7.5	12.3				
S&P500	10.2	14.7	-3.1	7.7	11.2				

<sup>1</sup> Note that gross IRRs are reported for South Africa and not net returns as shown for Europe and US.

<sup>2</sup> NVCA and Thomson Venture Economics (press release of 30 January 2006)

<sup>3</sup> EVCA and Thomson Venture Economics – preliminary performance figures released on 16 March 2006



## US

Private equity funds continued to outperform the public markets across all the time horizons at 30 September 2005. Five year performance for venture capital is still reflecting a negative return of -9.3%. This continued negative return is due to the remaining losses taken by firms that made investments in the closing stages of the Internet bubble era.

Mark Heesen, NVCA President, cautioned investors from becoming overly exuberant regarding short-term fluctuations, particularly in regards to venture capital investments: "Measuring venture capital performance is like watching the Tour de France. It is a long-term event that can't be analysed by looking at short-term developments. As an industry, we are heavily focused on the 10 and 20 year returns because those are the numbers that are ultimately realised. Long-term private equity continues to be a very attractive investment. Are short-term gains helpful? Absolutely. Do they define the entire race? Absolutely not."

Joshua Radler, Assistant Project Manager of Thomson Venture Economics, adds: "The next few years could be a telltale for private equity as the younger funds with the post-bubble strategies have yet to make their mark."

## Europe

The European private equity industry has returned 9.6% since inception, net of management fees and carried interest, with buy-outs and venture capital returning 12.4% and 5.6% respectively. Both buy-out and venture capital funds show an increase on the 2004 levels, particularly in the top quarter<sup>1</sup> where buy-out funds returned 35.3% and venture capital funds 23.9%.

The 10-year investment horizon return has moved to 10.2% in 2005 from 9.6% in 2004 for all private equity. Both buy-out and venture capital funds registered positive 10-year returns of 12.6% and 5.3% respectively.

Commenting on the 2005 preliminary performance figures, Sir David Cooksey, EVCA Chairman and Managing Partner of Advent Venture Partners, said: "The figures for 2005 support the confidence shown by investors as many GPs (General Partners) raise new funds for this cycle. In many European countries, the environment for private equity is improving, although all of us are aware that more understanding of our business model is important as the industry extends its reach. We are confident that 2006 will continue to produce good returns for all investors."

<sup>1</sup>The IRR of the funds performing in the top 25%

## Black Economic Empowerment

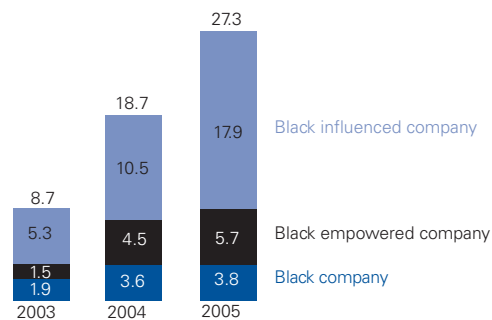
### Analysis of BEE total funds under management

Total funds under management of participating fund managers that themselves are black owned, empowered or influenced companies (i.e. have at least 5% black ownership – refer to the glossary for definitions) increased by 46% from R18.7 billion at the end of 2004 to R27.3 billion at the end of 2005. This represents 76%<sup>1</sup> of total “qualifying” funds under management and is also a significant increase from the 55% at the end of 2004.

The increase mentioned above has been mainly as a result of the empowerment transactions undertaken by previously not empowered fund managers, although the first time fund raising by empowered fund managers has also contributed to the increase.

It is also important to note that the BEE private equity statistics presented in this survey exclude all Captives – Government (including the IDC) which are obviously significant BEE investors. The IDC does not report private and public activity separately and hence we have not included any data for the IDC in this section. This understates private equity BEE investments significantly. Also, where participants did not return a completed Questionnaire but we were able to include them in certain parts of this survey using publicly available information, all these funds under management have been classified as “not empowered”.

Figure 35: Funds under management by BEE fund managers at year end (Rbn)



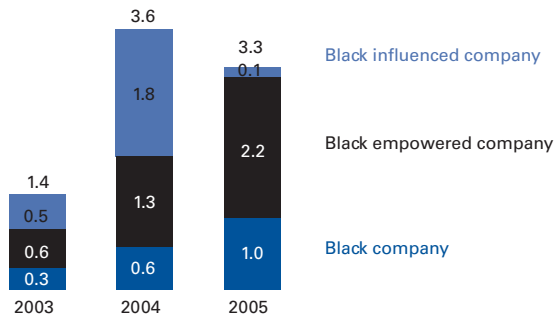
R9.6 billion of the funds at 31 December 2005 (31 December 2004: R5.8 billion) under the management of at least black influenced companies remained undrawn at the year end. The investment of these undrawn facilities will continue to have a positive impact on future investment activity, especially as South African businesses strive to meet the targets set out in the various BEE charters. It must however be remember that these undrawn funds will not necessarily be invested in BEE related transactions.

<sup>1</sup> Captive – Government funds under management have been excluded from total funds under management.

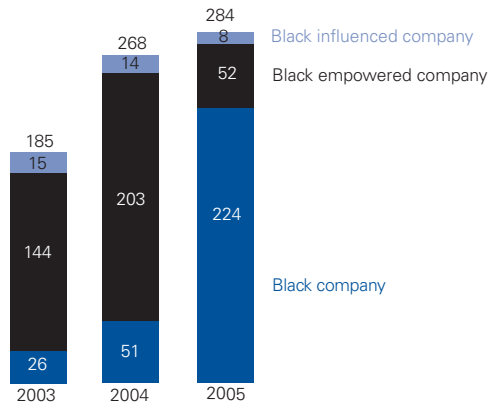
**Analysis of BEE investments**

The cost of investment into entities that are at least black influenced companies in 2005 was R3.3 billion. Even though this was an overall decrease of 8% from 2004, the value of investments into black companies increased by 83%, and the number of investments into at least black influenced companies increased from 268 to 284 (6% increase). This reflects the private equity market’s continued realisation that black economic empowerment investments are an increasingly important element of the South African economy and it holds good prospects for growth.

**Figure 36a: Cost of BEE investments made during the year (Rbn)**



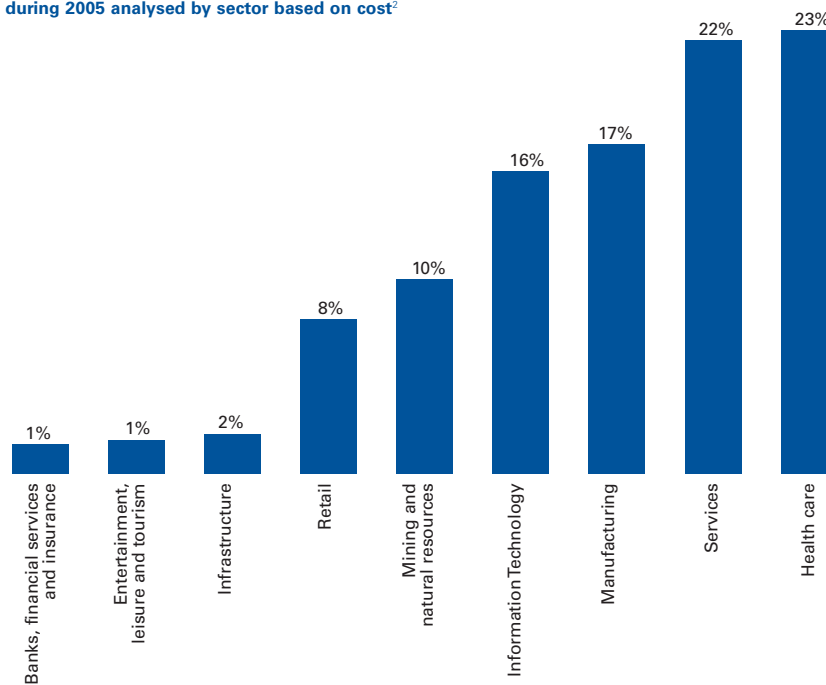
**Figure 36b: Number of BEE investments made during the year**



The average black economic empowerment deal size in 2005 was R11.8 million compared to R13.6 million in 2004. These are investments into black owned, empowered or influenced companies. The 2004 and 2005 average BEE deal size is higher than the R6.4 million and R10.3 million average of all investments in 2004 and 2005 respectively.

The health care sector enjoyed the highest level of BEE investment activity by value during 2005 although the retail sector was most active in terms of number of investments.

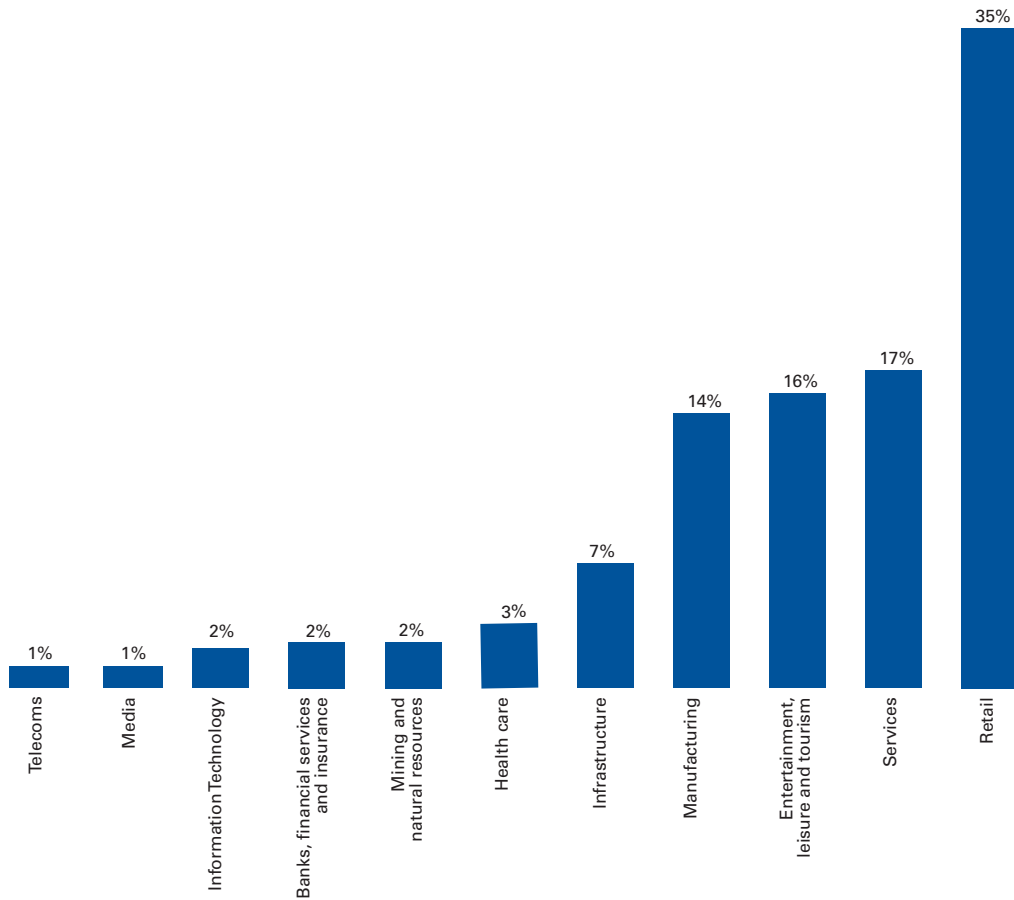
Figure 37a: BEE<sup>1</sup> investments made during 2005 analysed by sector based on cost<sup>2</sup>



<sup>1</sup> The analysis includes investments into black owned, empowered and influenced companies.

<sup>2</sup> 18% of BEE investments during 2005 in terms of value were classified as an other sector or not classified at all. The analysis above is only for classified investments.

Figure 37b: BEE<sup>1</sup> investments made during 2005 analysed by sector based on number<sup>2</sup>



Of the cumulative BEE investments that were classified into a specific sector at the end of 2005, retail investments accounted for the majority both in terms of value and number.

<sup>1</sup> The analysis includes investments into black owned, empowered and influenced companies.

<sup>2</sup> 14% of BEE investments during 2005 in terms of number were classified as another sector or not classified at all. The analysis above is only for classified investments.

Figure 38a: Cumulative BEE<sup>1</sup> investments at 31 December 2005 analysed by sector based on cost<sup>2</sup>

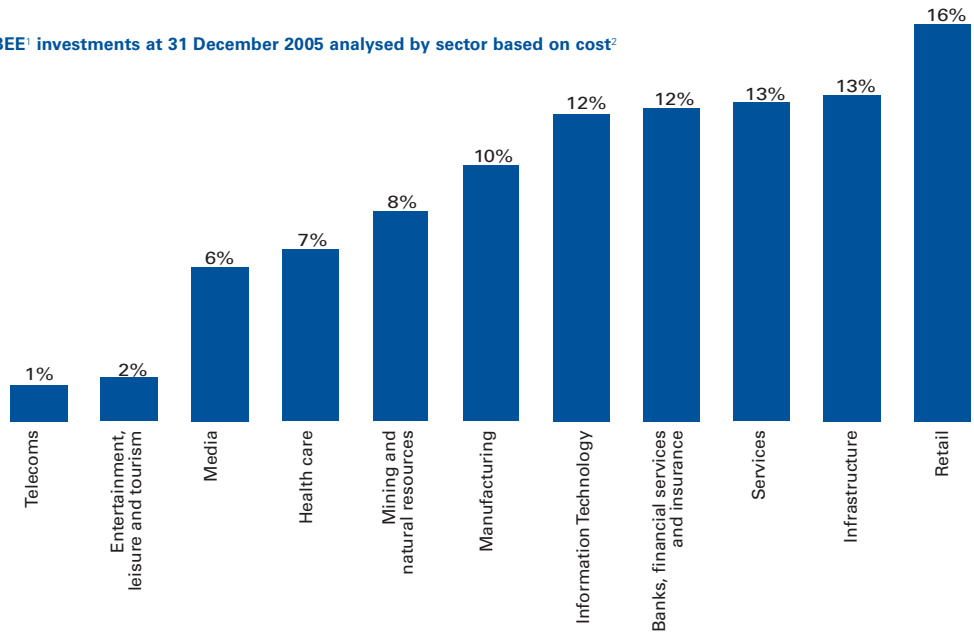
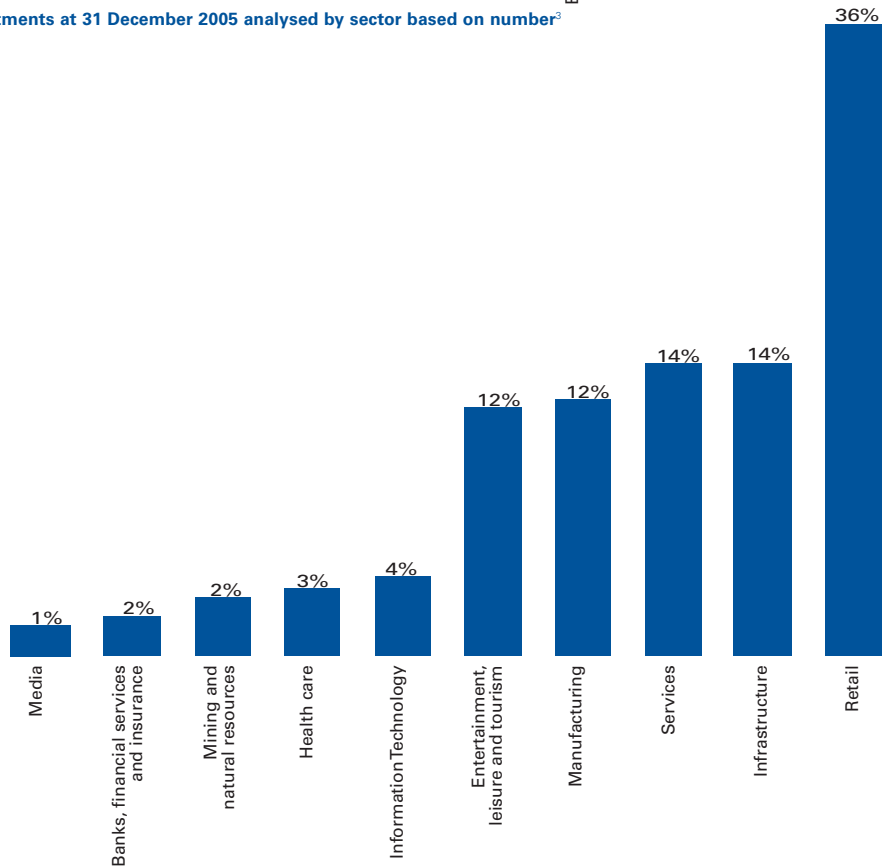


Figure 38b: Cumulative BEE<sup>1</sup> investments at 31 December 2005 analysed by sector based on number<sup>3</sup>



<sup>1</sup> The analysis includes investments into black owned, empowered and influenced companies.

<sup>2</sup> 12% of cumulative BEE investments at 31 December 2005 in terms of value were classified as an other sector or not classified at all. The analysis above is only for classified investments.

<sup>3</sup> 10% of cumulative investments at 31 December 2005 in terms of number were classified as another sector or not classified at all. The analysis above is only for classified investments.

Replacement and buy-outs are, like the entire industry, the most dominant stages for investment in BEE entities.

Figure 39a: BEE<sup>1</sup> investments made during 2005 analysed by stage based on cost and number of investments

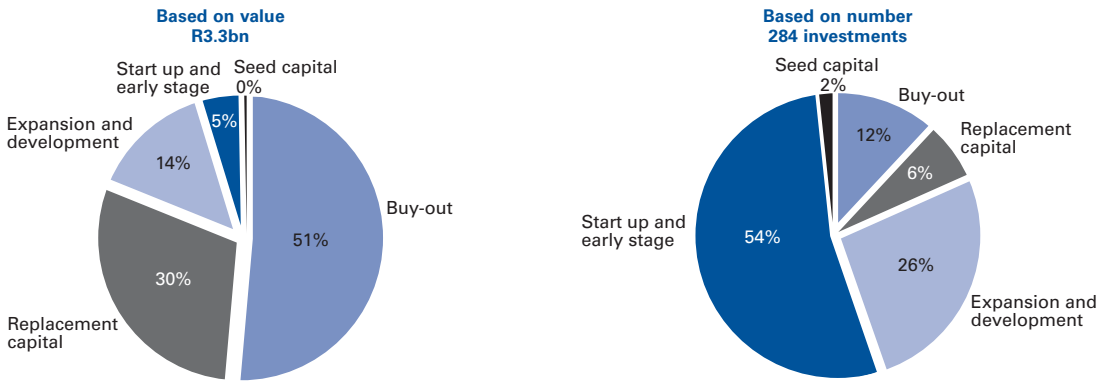
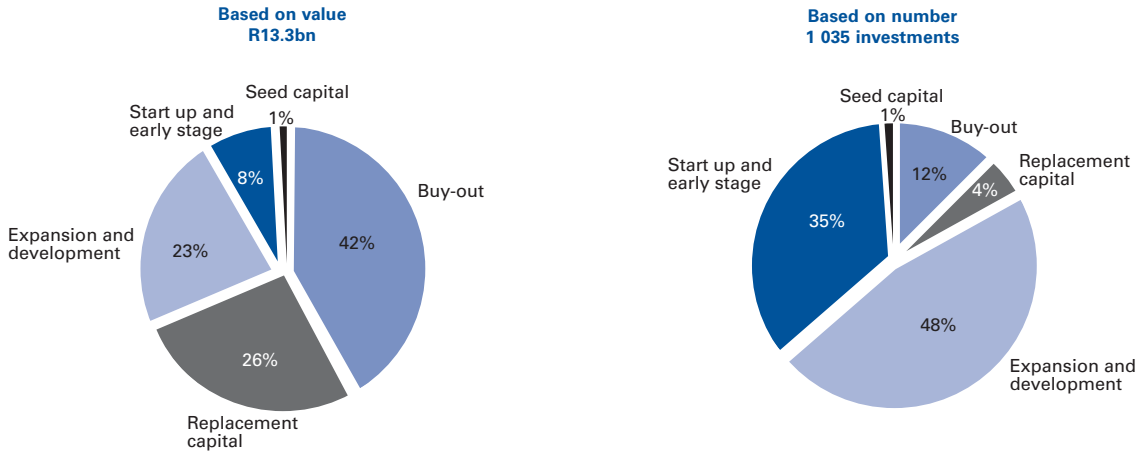


Figure 39b: Cumulative BEE<sup>1</sup> investments at 31 December 2005 analysed by stage based on cost and number of investments



<sup>1</sup> Includes investments into black owned, empowered and influenced companies.

## Private equity investment professionals

As Figure 40 illustrates, the industry remains dominated by white males who constitute approximately 50% of all private equity investment professionals. The second largest group are black males contributing 15% of the total reported numbers. Black professionals employed by the private equity industry increased by 21 during 2005 (35% increase).

Only 56 females of all population groups were reported as being private equity investment professionals at 31 December 2005. Although this is an unacceptably low number, it does represent an increase of 11 from 31 December 2004 (24% increase).

**Figure 40: Racial and gender constitution of private equity fund management professionals at the end of 2005 and 2004**

	2005						2004					
	White	Indian	Coloured	Black	Not specified	Total	White	Indian	Coloured	Black	Not specified	Total
Male	196	21	14	60	–	291	201	20	10	44	–	275
Female	31	3	1	21	–	56	22	4	3	16	–	45
Not specified	–	–	–	–	48	48	–	–	–	–	44	44
Total	227	24	15	81	48	395	223	24	13	60	44	364

The industry showed a 9% increase from 364 professionals at the end of 2004 to 395 professionals at the end of 2005.



## Data tables

	Total funds under management at year end	Undrawn commitments at year end	Fund raising activity during the year	Investment activity during the year	Funds returned to investors during the year	Proceeds from disposals during the year
	R billions	R billions	R billions	R billions	R billions	R billions
<b>2005</b>						
Early stage funds						
– Independents	0.873	0.438	0.001	0.149	–	–
– Captives (Other)	0.116	0.004	–	0.007	–	–
– Captives (Government)	2.195	1.800	–	0.237	–	–
– Captives (Financial Services)	–	–	–	–	–	–
	3.185	2.242	0.001	0.393	–	–
Later Stage Funds						
– Independents	13.485	6.843	2.230	1.107	2.293	2.013
– Captives (Other)	7.744	2.470	–	1.016	0.860	0.710
– Captives (Government)	5.490	0.372	–	–	–	–
– Captives (Financial Services)	13.976	3.629	–	2.380	1.250	0.889
	40.695	13.315	2.230	4.503	4.404	3.613
	43.880	15.557	2.231	4.896	4.404	3.613
<b>2004</b>						
Early stage funds						
– Independents	0.894	0.587	0.018	0.152	–	–
– Captives (Other)	0.113	0.006	–	0.009	–	–
– Captives (Government)	0.455	0.386	–	0.019	–	–
– Captives (Financial Services)	–	–	–	–	–	–
	1.463	0.978	0.018	0.181	–	–
Later Stage Funds						
– Independents	13.424	6.795	2.236	2.337	2.356	2.177
– Captives (Other)	7.676	2.639	–	1.710	0.182	0.037
– Captives (Government)	5.322	0.330	–	–	–	–
– Captives (Financial Services)	11.859	3.107	–	2.230	1.941	1.180
	38.281	12.871	2.236	6.277	4.479	3.394
	39.744	13.849	2.254	6.458	4.479	3.394

## Participants

Name	Min investments (Millions)	Max investments (Millions)	Contact	Contact telephone
<i>SAVCA members</i>				
ABSA Corporate and Merchant Bank	R50	R400	Grant Frew	(011) 350 2587
Actis	US\$10	US\$100	Peter Schmid	(011) 778 5900
AMB Private Equity Partners	R25	R200	Andrew Hall	(011) 215 2000
Argil Venture Capital	R3	R15	Paul Dixon	(011) 772 3427
Biotech Venture Partners	R2	R12	Heather Sherwin	(021) 462 2152
Brait Private Equity	R5	R850	John Gnodde	(011) 507 1000
Business Partners	R0.150	R15*	Jo' Schwenke	(011) 480 8700
Capricorn Capital Partners	R10	R150	Gavin Chadwick	(011) 666 0700
Ethos Private Equity	R5 – R150*	R50 – R500*	Andre Roux	(011) 328 7400
Glenhove Fund Managers	R5	15%	Alun Frost	(011) 263 9500
GroFin	–	–	Zahnne Stuart	(012) 998 8280
HBD Venture Capital	R0.25	R10	Wendy Ndzotoyi	(021) 970 1000
iCapital Fund Managers	R6	R15	Rowan Williams	(011) 268 6165
Industrial Development Corporation	R1	–	Call Centre	086 069 3888
Investec Private Equity	R20	–	Melinda Horn	(011) 286 7341
Kingdom Zephyr Africa Management	\$5	\$20	Mark Jennings	(011) 268 6911
Lireas Holdings	R0.1	R5	Russell Spring	(011) 481 6607
Medu Capital	R30	R70	Nhlanganiso Mkwanzazi	(011) 268 9140
Nedbank Capital Private Equity	R20	R500	Dave Stadler	(011) 295 8316
Old Mutual Asset Managers	R1 – R50*	R30 – R260*	Mark Gevers	(021) 509 2400
PSG	R1	R50	John Morgan	(021) 887 9602
RMB Corvest	R10	R500	David Rissik	(011) 268 0555
RMB Ventures	R25	R250	Ketso Gordhan	(011) 282 8475
Sanlam Private Equity	R50	R250	Cobus Foster	(021) 950 2500
Sasfin Private Equity Fund Managers	R3	R15	Malcolm Segal	(011) 445 8001
Sphere Private Equity	R10	R50	Aadil Carim	(011) 215 8300
Standard Bank Group Fund	R50	–	Jan Hugo	(011) 636 7725
Tiso Private Equity	R15	R75	Darrell West	(011) 549 2400
Treacle Venture Partners	–	R71	Christoff Botha	(011) 549 2400
Triumph Venture Capital	R3	R15	Michiel Smit	(012) 349 2376
Vantage Capital Fund Managers	R5	R22	Chris Lister-James	(011) 880 5730
VenFin	–	–	Hein Carse	(021) 888 3200
Wipprivate Equity	R10	–	Shaun Rosenthal	(011) 715 3500

\*Fund dependent

Note: Only those participants who completed a Questionnaire and did not object to the disclosure of their participation in this survey are included above.

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