

OVERVIEW

The worst could be over

The industry is set to benefit from enhanced and renewed investor confidence in SA

● Private Equity deals floundered in 2017, but 2018 holds promise.

Investors found few opportunities in SA over the past year, and private equity investors were no different.

Southern African Venture Capital & Private Equity Association (Savca) quarterly data tables, prepared in collaboration with Webber Wentzel, indicate 129 (203) reported acquisitions and 32 (41) exits in Africa in 2017, and 49 (99) reported deals and 13 (14) exits in Southern Africa in 2017, according to Webber Wentzel managing partner and private equity specialist Sally Hutton.

The decline was “unsurprising”, Hutton says. “During 2017, the private equity industry was faced with the challenges of an uncertain political and economic climate, including the threat of further sovereign debt ratings downgrades.”

Deal values were also lower – the highest-value recorded deal in 2016 was US\$566m (in SA) while 2017’s highest-value recorded deal was \$300m (in Ghana), reflective of



Sally Hutton: Private equity investors found new opportunities in SA over the past year

lower appetite across the board, particularly in SA, which has presented too many challenges and obstacles for investors.

Savca CEO Tanya van Lill says while there were a number of deals over R1bn in 2016, there were none in 2017. In SA, 56% of private equity deals were less than R100m, 22% were between R100m and R500m and 22% were between R500m and R1bn.

Hutton says private equity investors were favouring deals in telecommunications and technology, health-care and education, while Van Lill says there were also a number in financial services.

RisCura’s head of unlisted investment services Heleen Gousard says sectors aimed at consumers and the rising middle class, private education and private health-care remained popular for private equity players in SA and the rest of Africa. “Another trend which is pronounced is fintech ... possibly more so in the rest of Africa,” she says.

While deal sizes have gone down in 2017, there were some interesting deals.

In fintech, DiGAME Investment Company invested in tech-enabled asset manager 10X Investments alongside existing shareholder Old Mutual

What it means: There is renewed optimism and business confidence which will attract more trade buyers



Jacci Myburgh: Private equity market has become much more efficient

Private Equity. The deal resulted in \$6.14m in new funding for 10X to expand its retail offering and look at international opportunities.

Hutton says among the exciting private equity deals was the acquisition by Actis’ education investment platform, Emerging Markets Knowledge Holdings of Mancosa and Regent Business School, which saw Actis launch Honoris United Universities – “the first African private higher education network bringing together leading tertiary education institutions in North and Southern Africa”.

Old Mutual Private Equity head Jacci Myburgh says the “value add imperative” – to allocate financial and human capital smartly to facilitate and support market-beating growth and the sale of a much better business than the one you

bought – has become a greater focus as the private equity market has become much more efficient.

“A decade or

Savca CEO Tanya van Lill



so ago, one could rely on a relatively inefficient and undertraded SA market to find value. In the more efficient market of today, the imperative becomes more to add value than to find value.”

A faster pace of change has also led private equity managers to focus on technological change “and what we would call a business’s right to exist in 10 or 15 years,” Myburgh says.

“Private equity investments are typically held for 5-7 years, so buying into a company exposed to technological change or obsolescence could be detrimental or fatal. There is a greater need than ever to try to understand where the world is moving to and what industries and businesses will be the winners and losers over the medium and long term.”

He adds that in the absence of meaningful economic growth, it has been important to buy into businesses with a clear strategy on how to win market share over the short and medium term.

Returns

The Q2 2017 RisCura-Savca SA Private Equity Performance Report shows that private equity’s performance relative to listed markets remains positive, Van Lill says.

It shows a sample of private equity funds has outperformed the FTSE/JSE all share total return index and the FTSE/JSE shareholder weighted total return index.