

# Fruitful Partnerships

A journal of activity and trends in  
Southern African private equity  
2017



PRIVATE EQUITY

# Tailored!

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# Editor's note

**Erika van der Merwe**  
Outgoing CEO: SAVCA



We chose the theme of "Fruitful Partnerships" for SAVCA's activities in 2017 as a celebration of the multiple layers of positive and enabling relationships and networks within the private equity and venture capital industry.

You'll see reports of these fruitful partnerships throughout this journal, which incorporates articles, interviews and sound-bites that reflect relationships between institutional investors and fund managers, fund managers and investee companies, the industry and regulators, and between SAVCA and its members.

We spoke to a spectrum of institutional investors into funds and captured what seems to be occupying their minds; we sampled some of our conversations with private equity and venture capital managers with the aim of presenting a range of investment mandates and approaches, and to depict the enthusiasm with which they are tackling deal-making and fund raising. We also present highlights from an exciting report that we will be publishing this year, which depicts some of the stories told by those businesses with whom our members invest. You'll read about the work done by some of SAVCA's sub-committees, including the focused engagement with industry regulators and policy-makers.

As is always the case when we work with our members, the process of collating information and insights is fun and inspirational. We trust that these pages will reflect some of the creative and intellectual joy that we experienced in the production process. 🍌



# Chairman's note



## Dave Stadler Chairman: SAVCA



From what I have experienced in the private equity industry, none of us loses our passion for private equity in tough market conditions. Rather, it spurs us on to seek more fruitful partnerships with management, other industry players and stakeholders. In fact, times such as these give emphasis to the term “patient capital” and drives us to be more innovative in achieving the targeted returns.

The number of African private equity deals reported over the past year has increased to over 200. Of these, based on transaction information disclosed, approximately 50% were transacted in Southern Africa, of which some 65% were in South Africa. Of the disclosed deals in South Africa, more than half were significant minority investments while almost a third of the South African-made investments were majority stakes.

The main sector focus was in respect of telecommunications and technology, followed by consumer-facing businesses and financial services.

The Southern African private equity industry raised some R29 billion in 2015 and, while we do not have updated figures for 2016, there are more than 15 fund managers in the process of targeting funds well in excess of the 2015 total.

In line with good governance practices, the SAVCA board recently carried out an annual review of SAVCA's strategy, and re-affirmed our first area of strategic focus, that of raising the profile of private equity. This focus incorporates two specific purposes: that of attracting new and a greater number of institutional investors, family offices and high net worth individuals to invest their capital into the private equity industry, and that of promoting the private equity asset class to opinion makers and persons of influence, in order to demystify private

equity and to promote the benefits and positive impact that private equity investors bring to investee companies.

Some of these benefits are highlighted in our publication, the SAVCA 2017 Case Study Compendium, a compilation of sixteen investee companies. This study of fruitful partnerships provides a broad overview of a range of companies into which our members have invested.

The ultimate objective of raising the profile of the private equity asset class is to increase the flow of local capital into private equity funds managed by Southern African fund managers, and to create a greater awareness of private equity as an avenue for raising equity funding by unlisted companies of all sizes, with the goal of increasing both the quality and quantity of deal-flow opportunities to our members.

SAVCA has already achieved successes in meeting these objectives, but given that this is a long-term project for the benefit of the private equity industry as a whole, we acknowledge that it requires patience and endurance to attract patient capital.

The second area of strategic focus for SAVCA is the management of regulation, where there has been a steady increase in the volume and complexity of a range of regulatory and compliance matters affecting the private equity industry. SAVCA has now employed a dedicated resource as head of regulatory affairs, with responsibility for this critical aspect of regulation impacting on the private equity industry.

I invite you to enjoy this publication, which is an opportunity to share and celebrate the successes that the private equity industry in Southern Africa enjoyed over the past year, and to set the scene for 2017. 🍷

# FRUITFUL PARTNERSHIPS

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# Resilience and agility: A review of industry trends

Private equity activity in Southern Africa remained lively over the past year, signifying the resilience of investor interest in the region, the deal opportunity in the market, and the scope for private equity and venture capital managers to partner with businesses for growth, expansion and value creation.

Some of the major themes in the industry have been the volatility in local and international market conditions, which creates significant challenges for deal-making, and the juxtapositioning of this uncertainty with increased competition for deal flow amongst private equity managers, other financial buyers and trade buyers. Furthermore, a notable development has been the start of a re-evaluation of traditional private equity funding models, in the context of changing market circumstances.

Transaction activity – both on the acquisition and the realisations side – was firm over the past year, across the deal-size spectrum and in a range of industry sectors. The SAVCA Quarterly Data Tables, prepared in collaboration with Webber Wentzel, indicates that there were 203 reported acquisitions and 41 exits in Africa during 2016. There were 99 reported deals and 14 exits in Southern Africa over this period. Of the acquisitions, a third were in South Africa, with Nigeria, Kenya and Namibia also featuring prominently.



"The average deal size for the year across Southern Africa has been around \$250 million to \$300 million, which is consistent with what we saw in 2015, but still some way off the lofty pre-global financial crisis heights of \$585 million," says Brian Dennehy, director at Webber Wentzel. "Statistics show a significant year-on-year increase in deal flow and a general investor philosophy that bigger is not always better."

Similarly, fund raising by private equity managers in Southern Africa has continued to fare well, in spite of the concerns about weak regional and global growth, local and international political uncertainty, and continued currency gyrations. The SAVCA Quarterly Data Tables show that 85 African funds made announcements about plans to raise capital and about progress with fund raising. More than fifteen of these funds are managed by Southern African managers. This follows on from 2015, when the stand-out theme for Southern African private equity was its fund raising performance: As reported in the SAVCA 2016 Private Equity Industry Survey, a record R29 billion was raised by Southern African managers, for mandates including local, regional and sub-Saharan African markets.

## DEAL ACTIVITY DRIVEN BY INVESTOR INTEREST, ASSET QUALITY

Jeff Buckland, partner at Hogan Lovells, says that economic factors have had a significant impact on the level of investment and deployment of capital into Africa over the past year. "Despite these challenges, acquisitions were still concluded. In fact, South Africa has perhaps been a beneficiary to the more challenging markets in West Africa, where in South Africa the private equity market is more mature and businesses are more open to accepting private equity investment. Businesses see private equity as a way of unlocking some value for investors, but also providing resources to unlock further expansion and diversification."

Buckland observes, too, that more foreign private equity managers are exploring the local market. "We have noticed an increased interest from foreign established and managed private equity funds in investing and looking for opportunities, particularly in Southern Africa, increasing the competition for target businesses."

Stuart Bradley, joint managing partner at Phatisa, believes that the level of activity in the industry reflects "unprecedented resilience and a sense of solidarity". He attributes this to "our inherent optimism and African 'can do' attitude that has forced us all to keep our heads down, single-mindedly focused on what is important – enabling sustainable growth and creating long-term value for all".

Similarly, Darshan Daya, principal at Capitalworks, says that "the resilience of long-term investors, a number of whom have traded through many cycles of volatility, stands out as a major theme for 2016". From his perspective, despite a setting of uncertainty, attractive deals can be sourced and managed: "We have found deal flow to be healthy in the mid-market sector, with quality transactions being concluded, the most recent being the acquisition of leading independent consultancy IQ Business".



## COMPETITION FOR QUALITY ASSETS

Careful deal selection and due diligence processes, together with mindful support for investee companies, are a clear focus for the industry, to ensure investor returns are maximised while operating in a setting of complexity and competition.



"The market is much more competitive than previously, but there are still those willing to pay a premium to get in," says Lydia Shadrach-Razzino, director at ENSafrica. "Deals are taking longer to close, as the initial stages – diligence and structuring – are taking longer because people are a tad more conservative about making sure that the warranties and indemnities are correct and well suited to the specific investment."

Transactors and advisors report that, in addition to the effect of uncertainty, regulatory requirements are sometimes holding back decision-making and deal implementation. "In some instances the regulatory approvals framework and process have become more complex, burdensome and time consuming than one would expect in an efficient business environment. This has unfortunately heightened uncertainty and increased implementation timelines, which is quite frankly not in the interest of the buyer, seller or the business involved," says Jacqui Myburgh, head of Old Mutual Private Equity.



Meanwhile, competitive tension is played out through a rising trend for auction processes on buyout transactions. According to Webber Wentzel's Dennehy, "this reflects the increased competition for quality assets and the high levels of liquidity currently in the market. From the seller's perspective, auction processes can be beneficial in maximising the price, but they can also lead to protracted timelines and multi-phased disposal processes, given the buyer's focus on managing risk and transaction costs".

Clive Howell, head of private equity at Nedbank Corporate & Investment Bank, notes that the inclination towards auction processes for transactions is evident even in the lower mid-cap



space, owing to heightened competition and an increase in the number of private equity managers in the market.

As far as sectors are concerned, Howell sees predominant deal flow and focus in consumer goods and services, and in the technology, media and telecommunica-

tions (TMT) sectors, the latter group with a strong leaning to fintech and telecommunication plays. "What is noteworthy about deal-making in these particular sectors is that it often requires innovative or creative thinking and structuring, and not the normal, vanilla private equity approach."

He says three of the last five Nedbank deals have been in these two sectors. "More generally, we have seen an increase in deal activity, acquisitions and disposals, having completed two exits in 2016 and exploring others during the first quarter of 2017".

Old Mutual Private Equity's Myburgh also touches on the increasingly pervasive nature of technological change and its impact on decision-making in the deal-selection process. "There is an increasing focus on technology, with an acceleration in the pace of change in business. It implies that, when considering a transaction, we think carefully about the right to existence of that business, and whether it represents an enduring business model."

This approach of careful deal and sector selection is critical when market conditions become less supportive of earnings growth. Paul Boynton, CEO of Old Mutual Alternative Investments, explains that, despite the challenges of cost discipline and cash flow management, there are spaces that have done well.

"Our exposure to tourism has seen exceptional growth, with more expected as the negative headwinds of Ebola and visa issues dissipate, and as the benefits of a weak rand and stable tourism environment relative to the many troubled spots around the world come through. Renewable energy has also been a very active space for us with the industry having been a huge positive outcome for South Africa."



## VALUE CREATION AS AN EARNINGS-BOOSTING STRATEGY

Rohan Dyer, partner and head of investor relations at Ethos Private Equity, emphasises the point of mindful asset selection – and the importance of supporting the investee business through strategic transformation that ultimately supports the earnings performance.



"The underperforming South African economy is negatively affecting deal flow as low GDP growth creates risk in return expectations, plus there is regulatory uncertainty in some sectors. However, we are still finding attractive opportunities



to invest in entrepreneurial companies with good growth potential, which can be accelerated by supporting them with our Value Add capability."

This partnership through cycles of uncertainty typifies the private equity approach. "Our ongoing strategy of partnering with proven management teams has stood us in good stead as there is immense value in experienced and strong leadership in challenging times, who understand the importance of innovation and adaptability," says Garth Willis, principal at Capitalworks. "Knowing that volatility in the market is a constant, the focus on going back to basics for private equity investors is of paramount importance now and as we look to the future."

Howell notes that, with no prospect of a rising tide from a stronger economy, the industry will maintain its emphasis on driving operational efficiencies within investee companies in the coming year.



Garth Willis

## AN EVOLVING APPROACH TO FUNDING PRIVATE EQUITY

Ethos Capital debuted on the JSE in August 2016, following a R1.8 billion oversubscribed public placement. The listing gives the market the opportunity to invest in a diverse pool of unlisted small to medium-sized companies through private equity funds managed by Ethos Private Equity.

Nicole Paige, Partner at Webber Wentzel, notes: "There has been a growing interest from other private equity managers and investment holding companies looking to do similar



Nicole Paige

transactions and access alternative sources of capital that require liquidity, which can be a challenge for private equity funds".

On the fund formation side, she says managers are exploring the use of ever-green structures – particularly in relation to investments with a long-term profile and fairly consistent dividend yields.

The appetite for access to longer-term fund structures also links to the nature of transaction management across sub-Saharan Africa, given that managers are expanding their regional scope and are engaging in multi-jurisdictional deals. Furthermore, there is a growing awareness that business assets in less sophisticated economies require longer holding periods to maximise returns to fund investors.

## AFRICAN PRIVATE EQUITY FUNDS BECOMING BORDERLESS

John Bellew, head of private equity at Bowmans, notes the shift towards a broader regional perspective in acquisitions. "We have seen a fair amount of deal activity across the continent; many of the African deals we have seen have been of companies operating across multiple African jurisdictions."



John Bellew

In fact, says Shadrach-Razzino, deal-making in Africa is becoming borderless. "From a South African perspective, we are seeing more cross-border deals than we have seen in the recent years. These deals are being run out of South Africa, with some local law input and with lawyers and transactors upskilling themselves in different African jurisdictions."

Boynton says he is seeing a continued blurring of the lines between South African and pan-African funds, as the industry becomes more continental in nature. "This I think is being driven by both the demands of international investors and by many portfolio companies identifying growth across Africa as a primary value-creation strategy. In the longer term, Johannesburg is well positioned to be the leading jurisdiction for pan-African private equity, but it will need to step up its game to compete successfully with London and ultimately Lagos. It will require a coordinated effort between the industry and government to ensure that the optimal ecosystem for this outcome is ensured as timeously as possible."

## GOOD PIPELINE OF DEALS

According to Dennehy, all indications are that the positive transaction trend will continue into 2017, with a good pipeline of deals already spilling over into the first quarter of 2017.

"Private equity firms that have had some flexibility to defer realisations in light of unfavourable market conditions will be motivated to dispose of mature investments. On the other hand, strong fund raising over the last two years has resulted in an abundance of committed capital that will be spent by Africa-focused funds."

Despite the abundance of capital, transactors are expected to maintain a conservative approach. Andrew Dewar, managing director of Rockwood Private Equity, believes that "astute fund managers will think very carefully how they manage their portfolios in a low-growth environment. If one is disciplined and cautious, one will be able to do deals and extract value".





The positive fund raising momentum is expected to continue, although competition for institutional capital is intensifying. "We are cautiously optimistic that the fund raising environment will improve on the back of numerous sub-Saharan Africa success stories. There is increasing awareness of private equity as an asset class amongst larger African pension funds, and international institutional investors and private investors are opening up to its possibilities," says Phatisa's Stuart Bradley.

Boynton considers it essential for the industry to receive more local and regional capital, not only to mobilise dormant local capital, but also to reduce fund managers' exposure to foreign-currency risk. "We need to continue to persuade

local money to invest in private equity capabilities – in South Africa, Kenya, Nigeria and the like. Managers need to put local currency to work."

Based on the performance track record, and on the capabilities within the industry, Boynton is upbeat about the prospects for Southern African private equity. "Despite the challenging economic conditions, South African private equity continues to provide longer-term returns in excess of those available on the listed market. This is a result of continued discipline on entry pricing and successful strategies deployed around driving value creation. So, the industry is in good shape and well positioned to take advantage of an upturn in the economy once that happens." 🍂



## A PERSPECTIVE ON THE EMERGING MARKETS PRIVATE EQUITY OPPORTUNITY

**Daniel Schoneveld**

Principal: Hamilton Lane



The definition of emerging markets changed significantly over the last decade as macroeconomic and geopolitical factors continue to affect countries and regions in different ways. If anything, 2016 highlighted the fact that emerging markets represent a broad spectrum of countries across continents and so are difficult to synthesise with generic statements. For example, from a macro-economic perspective, growth in China, Brazil, South Africa and Nigeria has slowed, while India and east African nations have experienced positive momentum.

The past 12 to 24 months have been difficult for emerging market private equity returns, harmed by volatile public markets (e.g. China), continued currency depreciation against the US dollar (e.g. Turkey, Russia, South Africa), and in some cases, a difficult political environment (e.g. Brazil, South Africa).

As such, many private equity fund managers are being forced to re-evaluate their strategies to be able to invest in difficult economies. Their skills and capabilities are being

tested not only to find deals at reasonable prices, but also to add real value to companies and find good exit channels. From an institutional investor perspective, the recent trouble in currency markets remains at the top of the list of concerns because it will slow the pace of potential exits.

Nonetheless, there is a role for emerging market private equity in broader private equity portfolios as they provide diversification. The long-term macro-economic outlook for many emerging market countries remains strong because of the growing middle class, increasing consumption and urbanisation. Additionally, emerging market private equity investments are a low percentage of GDP in comparison to developed markets, which suggests there is continued room for growth.

Looking at the African region specifically, institutional private equity is still relatively underpenetrated. There are mostly growth/expansion-type deals with fewer buyouts than in more mature markets. 🍂

# PRIVATE EQUITY TRANSACTIONS IN SOUTHERN AFRICA

2016–2017 (to date)

Source: Africa Global Funds

Vantage exits TrenStar

Ethos buys into The Eazi Group

Broadreach, Grindrod  
invest in FS-Systems

Amadeus and MTN invest  
in Africa's travel agency

AIIP backs SERS

Amadeus invests \$2m in  
South African Hepstar

Medu Capital acquires Universal  
Paints and Elite Truck Hire

Convergence injects  
growth capital in inQuba

AMC invests \$107m in Net1 to  
expand financial inclusion in SSA

TaxTim raises funding from  
MMI Holdings' Exponential

Abraaj launches energy  
development arm Themis

AfricInvest & Microcred acquire  
MicroKing

Mauritian PE fund acquires  
InterContinental Hotel in Zambia

Vantage makes first  
investment in Namibia

Convergence and Stockdale  
acquire South African fintech firm

Zeder's subsidiary takes  
49% stake in Farm-Ag

Adenia takes stake in Opham

Harith invests in NOVO Energy

Phatisa partners with  
Camland Estate on Zambian  
property development

Allegrow Fund backs  
Namibian manufacturer  
of cleaning products

OMIG increases stake in UFF

Barnstone Education and the  
Schools and Education  
Investment Impact Fund further  
invest in Prestige School

Brainworks Capital Management  
acquires NettCash

Convergence backs SA  
technology start-up

Mergence moves to social  
housing with two investments

Invenfin takes stake in South  
African chocolate maker

InfraMed invests in  
Broadband for Africa

Yellowwoods acquires  
stake in DataProphet

Phatisa invests in Torre  
Equipment Africa

Nedbank Private Equity  
invests in Comsol

Vantage provides mezzanine  
facility to Vumatel

Atlas Mara takes stake  
in Finance Bank Zambia

RMH takes stake in Propertytu

Vantage invests in New GX Capital

Wendel acquires 40%  
stake in SGI Africa

TLG Capital makes third  
investment with COF

WDB, Grovest take  
stakes in Seed Engine

HAVAIC invests in Digital Cabinet

Silvertree invests in South  
African pet store

IPAE makes 3 SMEs investments

ARC takes 27.5% stake  
in Colourfield

Kleoss Capital Fund I  
invests in Real Foods

Zoona raises \$15m in Series B round

Afinitas to provide seed  
capital for Adventis

ARC acquires 29.9% stake  
in CMB International

Invenfin invests in Dynamic  
Commodities

Eos Capital acquires  
35% in Fabupharm

Conduit in buyout deals

Lucid Ventures announces maiden  
investment in Jamie's Italian

Rockwood sells Tsebo to Wendel

Carlyle set to acquire  
majority stake in Amrod

Capital Seven to acquire  
75% stake in Trust Holdings

Mara Delta expands into  
Mauritian hospitality sector

Investec acquires stake in Mobisol

Accion Venture Lab in Lulalend deal

Silvertree backs CarZar

ARC backs Sinayo Securities

Cactus Capital backs two  
African tech ventures

UNICEF Innovation Fund  
makes first investment in SA

CDC Group led investment  
consortium backs UNICAF

Clifftop Colony backs  
South African iono.fm

HAVAIC leads investment  
in SA tech startup

Capitalworks and Tiso in IQ Business deal

Futuregrowth invests in SA Taxi

Carlyle to acquire Global Credit Rating

GAIA acquires 25.2% stake in Dorper Wind Farm

AIIM acquires majority stake in DSM  
corridor group Tanzania

# Fund structuring: Evolving to meet market needs

There is a gradual yet discernible shift in the approach to private equity fund structuring, as some managers consider a move away from aspects of the traditional methodology. This is a pragmatic response to changing investor requirements and investee considerations.

The traditional and still the most common approach to fund structuring in private equity hails from the early development of the industry in the USA, UK and Europe, and entails managers raising third-party capital from large institutional investors, and structuring this capital into closed-ended funds governed by a partnership structure, and which have a typical life of ten years.

Managers globally and in Southern Africa have been looking in recent years to adapt aspects of this model, incorporating elements such as a longer investment horizon, increased liquidity for investors, and greater accessibility to private equity for investors other than those with sizeable cheques.

In practice, this has entailed managers structuring private equity partnerships with longer terms, and some exploring fund terms of up to 20 years. Others are using permanent fund vehicles that enable investors to come and go. There has also been a move, notable in developed markets and now a reality in emerging-market regions such as Southern Africa, to list fund entities or vehicles that feed capital raised on public markets into a traditionally structured fund.

The listing of EPE Capital Partners Ltd (Ethos Capital) during 2016 is the first example in the local market of the latter.

"Ethos established a new hybrid structure, in which it created its own limited partner (LP) through a listed vehicle, which reduces the need for capital from international LPs. The model creates access for smaller investors, who have the comfort of protection under the Companies Act," says John Bellew, head of private equity for South Africa at Bowmans.

Rohan Dyer, partner and head of investor relations at Ethos Private Equity, explains the motivation for this structure, which enables the industry to tap into a broader spectrum of investors: "The current market for fund raising is difficult given currency volatility and the sluggish economy. Private equity has been well supported by some of the big local pension funds for many years but there is potential for much more. We are trying to encourage more investment in the asset class as its merits are often under-appreciated and its ability to outperform the listed market is significant."

These innovative developments come at a time when swings in global investor sentiment have inhibited fund raising for

many, and where concerns about currency risk have prompted managers to pursue more local investors into their funds.

Nicole Paige, partner and co-head for private equity at Webber Wentzel, led the structuring team on the Ethos Capital listing and its fund structures. Paige believes "there is a definite move towards permanent private equity vehicles, but we don't see these as necessarily replacing traditional private equity fund structures, but rather as an alternative structure suiting fund manager's investing in either very long-term investments or investments that generate high yields that will therefore provide liquidity for investors. Permanent vehicles tend to take the form of listed entities – in the form of SPACs or listed investment entities – or private investment holding companies that will look to implement an IPO once a portfolio of investments has been built up".

In addition, private equity managers are finding that, depending on market cycles or the stage of development of economies, a ten-year life of fund may not provide adequate time to take assets to the point of optimal returns. This is true in a range of industries in sub-Saharan Africa.

"The model is evolving to meet unique African needs and the needs of specific industry sectors. Generally, I think the industry continues to mature and, more importantly, continues to attract new entrants. Infrastructure, real estate and renewable energy have probably been the sectors where we have seen the most fund raising interest over the past year. In these sectors, where assets require time to reach the stage of delivering returns, it makes sense to adopt a longer-dated fund structure," says Bellew.

Paige notes that the majority of new funds currently reaching first close are still structured in a traditional manner, and believes that the private equity model is entrenched and will continue to be used. As she puts it, "the traditional private equity model is not dead, but simply evolving". This evolution in fund structuring reflects an agility in the industry: It shows its ability to adapt pragmatically to changes in investor requirements and to circumstances in the markets and industries in which it transacts, thereby ensuring its continued success as an asset class. 🍷







## FRAMEWORKS FOR FUND STRUCTURING IN PRIVATE EQUITY

### Traditional private equity fund structure

**In brief:** *En commandite* partnership, ten-year life, 2-and-20 model. This is the vehicle of choice in private equity internationally. Most South African private equity funds are based on partnerships, with some older funds using a bewind trust

**Pros:** Familiarity; tax transparency; limited liability for investors; readily available capital to deploy when opportunities arise

**Cons:** The fund-raising burden; exit pressures – the ten-year life is not necessarily suitable in a sub-Saharan African context, where deals may need a longer holding period.

### Section 12J VC Company

**In brief:** Tax incentive introduced in 2009

**Pros:** Tax benefit on amount allocated to a Section 12J fund

**Cons:** Various shortcomings still to be resolved, including fact that it relies on a company structure.

### Special Purpose Acquisition Company (SPAC)

**In brief:** A SPAC is a publicly traded shell that has a specific mandate to acquire or merge with other companies or assets

**Pros:** Provides protection to shareholder funds raised, and a minimum liquidation value per share in the event that no viable asset is acquired; pre-funding an acquisition strategy and investing in a management team; quick process of raising capital; directors must hold 5% in the vehicle, locked in for six months post acquisition of the viable asset, to ensure alignment with shareholders

**Cons:** Inability to come to market with cornerstone asset(s) or investment portfolio, as the SPAC may not carry on any commercial and/or business operations at the time of application for listing to the JSE; first investment must be approved by shareholders (there is some execution risk); capital

held in escrow pending approval of the acquisition of a viable asset (cash drag); directors' interest in the vehicle may be costly to finance in a large capital raise.

### Permanent fund vehicles

**In brief:** Allows for a longer fund life than ten years, which may be appealing for certain asset classes (e.g. primary agriculture, real estate, infrastructure)

**Pros:** Can come to market with cornerstone asset(s) or investment portfolio; track record of financial information on assets (if already acquired); investment policy creates flexibility for future transactions; the investment manager must hold an interest in the vehicle, to ensure alignment with shareholders; lower capital requirement than a SPAC

**Cons:** Cash drag on returns; must accommodate any additional regulatory processes triggered by initial asset transfers as well as required disclosures and reporting in the pre-listing statement, including, potentially, *pro forma* financial information; timing – matching capital raised to investments; public disclosure of potentially sensitive portfolio company information (although information may be aggregated); investment manager must hold 10% in the vehicle (the JSE, after taking account of the relevant experience of the investment manager, may decide otherwise).

### Hybrid models

Various models are possible, e.g.:

- A. A permanent capital vehicle, with the initial tranche of capital raised privately. The portfolio performance is assessed after six to seven years, and a decision is made about disposal, maintenance or raising of additional capital. A listing may enable exits and partial exits; a rights offer would generate additional capital; an unwinding is feasible if the portfolio is not a success.
- B. Establishing a listed vehicle to create a fund investor, which reduces the need for capital from international LPs. The model creates access for smaller investors, who have the comfort of protection under the Companies Act.

Sources: John Bellew, Bowmans; Nicole Paige, Webber Wentzel

# TRANSACTORS TALK

## Christopher Clarke

Managing Partner: Inspired Evolution Investment Management



### *What are your views on the fund raising environment for African private equity?*

CC: We are bullish about the fund raising appetite and environment for African private equity. It has maintained its priority status as a preferred emerging markets territory, certainly for policy-driven investors. But that is not to say you don't have to go the hard yards to secure capital. Your fund investment and execution strategy has to be absolutely watertight before investors will sign on the bottom line. But, compared with what we anticipated, there still does seem to be a fairly limited universe of international and local commercial and institutional investors, fund of funds and family offices with private equity investment allocations. LPs also seem to be increasingly cautious in their approach to second funds, even if you are a stellar performer. This is understandable and separates those GPs and managers with a solid and credible investment strategy and execution platform from the rest.

Our experience from our current successful fund raising drive for Evolution II is that, beyond the hype around Africa as an attractive investment territory, it is unfortunately still far from mainstream for larger international and local commercial and institutional LPs to make alternate investment allocations to private equity. While it certainly is sparking interest and while most want a seat at the table, right now it seems that, except for a few new progressive investors, only the usual suspects are prepared to commit. Many players also seem to have increasingly direct investment strategies. So, knowing whom to target is a key component of any fund raising plan.

### *How are institutional investors changing their approach to African private equity managers?*

CC: Investors certainly have evolved in their approach to African fund managers over the past few years. This comes mainly as a result of the evolution of their own understanding of and experience with our regional and country markets and the associated risks. They have deeper investor knowledge and granularity on market dynamics. As a result, investor criteria have become more onerous and restrictive. In particular, sustainability issues governing environmental, social, governance (ESG) and reputational risks are key concerns, and LPs

are prescribing more rigorous GP obligations to ESG investment management approaches.

This is a responsible and appropriate response to the higher growth opportunities in emerging market countries across sub-Saharan Africa. With the resource-scarcity pressures that are mounting across the region, future generations cannot afford a "growth at any cost" mentality.

So, beyond the obligatory solid investment-return track record and performance criterion, this was a key differentiator for us as an ESG-integrated fund manager.

### *What are your views on the funding models for private equity? Do you see an evident trend towards newer structures for funds?*

CC: We spent a substantial amount of time sweating over the perfect fund structure for our latest fund, which is always a balancing act between market drivers and investor readiness. After seeing various emerging trends, we decided not to go the permanent capital/ evergreen-structure route at this juncture, and elected for a traditional private equity closed-ended partnership structure.

This was informed by the hybrid nature of our fund strategy that targets earlier infrastructure-type investments through development capital support as well as project equity finance, and our complementary focus on resource-efficiency growth businesses. We have plans to pursue permanent capital structures as the markets mature and asset pools grow, which would be attractive to institutional investors looking for yield.

We are intimately familiar with these structures and the various nuances, having engaged with many of the secondary acquirers who expressed interest in our operating renewable-energy assets in our Evolution I portfolio, which we have now sold.

In sum, we stuck to private equity structure conventions as our investor set still comprises several policy-driven DFIs that are mostly not ready for atypical structures which push their catalytic investment mandates into uncomfortable territory. We didn't experience any real trend towards longer investment horizon funds, which are more a function of the nature of the fund mandate and strategy. 🍷



# DEAL TRACKER

## TECHNOLOGY

### LP PERSPECTIVES



Hany Assaad

**Hany Assaad**, Co-Founder and Chief Portfolio and Risk Officer at Avanz Capital, a pan-emerging markets private equity fund investor, sets out his views on trends in funding models.

In the past year, there have been several different funding models that have been put forward as a response to investors who have different priorities and face different funding challenges. These models include longer terms of closed funds, holding companies with no end date and more liquidity options.

These funding models have been put forward by managers as a response to what different investors are seeking. It is important to first understand the needs of the different types of investors, from the pension funds (and there are many different types with different needs) to the family offices and high net worth individuals (HNWIs). This range is quite broad, with many pension funds looking for long-term investments that can match their long-dated liabilities. Others are looking for liquidity in the medium term. Family offices and HNWIs favour a shorter term, with a greater emphasis on co-investments.

We find it important for fund managers to understand the investors they are targeting and to make sure that the investment they are offering meets the needs of the group of investors targeted. This means that not all funds fit all investors, and fund managers need to be selective and targeted in their fund raising approach.

From talking to many investors in the past year, we can make a few general observations. Large pension funds and sovereign wealth funds have a minimum ticket size and favour larger funds. Many of them will look for the longer-term fund life. This means that the large funds are more able to offer longer life of funds, e.g. 12 to 15 years. We have found that in many cases family offices and HNWIs tend to prefer holding company structures where they can also play a role. These can be smaller in size.

In general, though, we found that the closed-end funds with 10-year terms are the most preferred and most common form of investment for private equity in emerging markets.

#### Private equity manager

Edge Growth's Vumela Fund

#### Target company

SweepSouth

#### Industry

Tech

#### Deal value

R10 million

#### Date

January 2016

#### Comment

SweepSouth launched their online and mobile domestic-cleaning booking platform in June 2014. They offer a fresh approach to home cleaning services – booking a home clean on the SweepSouth.com website takes just two minutes, and the service is fully customisable.

The business has since seen exponential growth, has attracted seed and Series A investment and has won numerous awards, including participation on the "500 Startups" accelerator programme in Silicon Valley.

Vumela was attracted to SweepSouth's ability to execute and build technology that will enable them to scale robustly in an attractive market, creating over 700 jobs for low-skilled black females in the process.

#### Private equity manager

Convergence Partners

#### Target company

Snapt

#### Industry

TMT

#### Deal value

\$1 million

#### Date

June 2016

#### Comment

Snapt is a South African tech start-up disruptor to the traditional hardware-based application delivery controller (ADC) industry. It provides high-end virtualised and cloud-based load balancing, web acceleration and security software that is essential in helping businesses keep their web-based applications secure and running optimally. The Convergence Partners investment will support Snapt in its global ambitions that includes becoming a major player in the US market.



# DFIs' decades of development

As pioneer investors in sub-Saharan African private equity, development finance institutions (DFIs) have been facilitators of growth on the continent. This role is set to continue.

For many years now, DFIs have been cornerstone investors into African private equity, mandated to stimulate local economic growth through helping to mobilise private sector financing. As global and regional growth and investment cycles have shifted, commercial investors into African private equity funds have come and gone. By contrast, while there have been adjustments in the country-specific and sector-focused mandates of the DFI community, the DFI commitment to sub-Saharan African private equity is likely to remain.



According to Alison Klein, private equity manager at FMO: "We see a continued role for DFIs in the region, driven by opening up new markets which other institutional investors still consider too risky or exotic, and by maintaining a consistent appetite for the region across the cycle".

## COMMITTED BEYOND ECONOMIC CYCLES

Denis Sireyjol, regional head in Southern Africa and Indian Ocean at Proparco, holds a similar view: "Our willingness to support Africa has always been high, regardless of cycles".



"We expect the private sector in Africa to keep developing and, considering the DFI mandates to promote private sector growth in emerging economies, we are confident that there will be a role for DFIs in sub-Saharan Africa," says Anne Keppler, vice president for Corporates/Funds Africa Equity & Mezzanine at DEG.

"As we have seen in other regions, such a role might become more specific in future and more selective the more countries develop. Overall, we believe there are always some



sub-sectors or niches where DFI support and involvement are very useful and make sense. For example, DFIs have actively supported South Africa's Renewable Energy IPP Procurement Programme in earlier rounds and stepped away the more successful the programme got," she adds.

There are a variety of facets to the developmental function of DFIs in African economies – and in the African private equity industry. By acting as cornerstone investors in African private equity funds, DFIs create an environment for the emergence of new private equity investors to satisfy the growing need for growth and development capital across the continent.

## ANCHOR INVESTORS

Lynn Nguyen, acting vice president of investment funds at OPIC, explains why this funding commitment is vital for the private equity industry: "Having a reputable and well-known anchor investor may catalyse other investors and is one of the determinative factors of success or failure for funds, especially first-time funds."

According to Jeremy Cleaver, portfolio director for intermediated equity at the CDC Group, DFI capital will likely remain important for helping to support new and emerging fund managers in Africa for the foreseeable future.

He adds that the role of DFIs is multi-faceted. It begins with providing the capital to enable most funds in the market to get to a first close – a position that may not otherwise be achieved; providing assistance and mentoring to private equity managers as they think about essential elements such as their team composition and their investment strategy; ensuring that environmental, social and governance (ESG) policies, procedures and capabilities are in place; and ensuring that fund terms mirror best practice.

"DFIs continue to play an important role in ensuring high-quality fund terms as well as a core focus on ESG issues, which are important for many other investors who may not have the capacity that DFIs have to drive best practice in these areas," says Cleaver.

Sireyjol says that unlocking fresh investment opportunities is the key role for the private equity industry, adding that Africa is full of family-owned or friends-owned start-up businesses with huge growth potential, looking for expansion capital. "This is especially true for South Africa, which is a platform to grow pan-African businesses, and





which is a land of innovation and intense entrepreneurship skills.”

Being a first-close investor requires cost, time and effort. But, according to Klein, the benefits are that DFIs can play a clear and active role in catalysing other investors, and in cementing a relationship that may yield co-investments in certain cases.

These co-investments provide further opportunity for unlocking value and supporting growth. According to Keppler: “From our own experience and perception, we certainly are keen to co-invest with our private equity fund, in transactions where we can add value to the investment – either by providing access to more capital or through our global network that we bring to the table, plus more than 50 years of institutional experience. We can add value to the actual portfolio companies and reduce costs”.

## CONTRIBUTING TO SUSTAINABLE DEVELOPMENT

DFIs have been pioneers in African private equity with their core mission to offer long-term finance to the private sector in order to contribute to sustainable development targets. With their policy aims, DFIs are helping to mobilise private sector financing in Africa and are encouraging economic development across the continent. The historical involvement by DFIs in African private equity as investors into funds and as co-investors is expected to continue, with a sustained investment focus on the continent in 2017 and beyond.

In Keppler’s view: “We want to continue to promote private sector growth and identify successful growing businesses with strong entrepreneurs in order to create decent jobs and also economic returns. Last year in Africa we deployed \$150 million for private equity. As an on-balance sheet investor, we do not have a budget that needs to be deployed within a period – so we are always open to good opportunities. DEG will certainly stay active in sub-Saharan Africa to support and work with our existing partners and find new ones.” 🍌

## PRIVATE EQUITY FUND RAISING IN SOUTHERN AFRICA AND BEYOND 2016–2017 (to date)

Source: Africa Global Funds

Gulf Credit Opportunities Fund II hits \$175m first close

Kibo Fund II reaches second close

Investec closes Africa Private Equity Fund 2

Enko gets \$83.25m at final close of its Pan-African PE fund

Westport II reaches first close just under \$250m

GroVest raises just over \$4m for GroTech

Actis Africa Real Estate Fund 3 gets over \$500m at final close

4Di Capital reaches R256m first close for VC tech fund

Novare Africa Property Fund II raises \$350m at final close

Specialised Namibian Fund holds first close

Adenia Capital (IV) launched with €180m LP commitments

Ethos Mid Market Fund I hits first close at over \$47m

Averroès Finance III holds interim close

ATAF achieves first closing at \$2.8m

French African Fund launched

Rocket Internet’s Fund reaches final closing

Inspired Evolution targets \$250m for its second fund

JSS Empowerment Mining Fund targets R1bn AUM

Agri-Vie Fund II hits first close

# Collaborating on investments

Institutional investors explain why the industry is seeing a rising trend towards co-investments, and provide views on how best to manage these exposures.

## **Daniel Schoneveld**

**Principal: Hamilton Lane**



Around the globe, limited partners (LPs) continue to seek ways to access co-investment deals. This is primarily because co-investments can often enhance multiples and actively increase capital deployment – and therefore assist in actively managing private equity exposure. Co-investing can also provide lower average asset class costs because they tend to have lower fees than investing in a fund. However, co-investments are distinct from fund investing because they have a different risk-return profile and require different investment skills. Deal access, allocation constraints and diversification are all factors to be considered in developing a co-investment strategy.

as the passive co-investor may treat a co-investment as an increase to the fund commitment (at no or lower fees and carry) and basically doesn't get involved, an active co-investor wants to actively participate in entering and managing the investment, which requires more effort and coordination from all parties.

These different approaches also require different management: LPs treat the co-investment either as a passive extension of an existing fund investment – without additional requests – or take an active approach to support the manager in creating value. The latter approach requires clearly defined roles and responsibilities in order to avoid frustration and more importantly to add value. Advantages to the LP include access to an extended team, an extended network and the possibility to write a cheque beyond fund diversification limits and available commitments – a strong potential value driver.

## **Anne Keppler**

**Vice President: Corporates & Funds Africa, Equity and Mezzanine: DEG**



In the past, requests for co-investments were raised by LPs who also had a direct investment mandate. Over the last few years we have seen two drivers increasing the demand for co-investments: firstly, an increasing number of LPs investing in (Southern) African private equity, such as fund of funds and pension funds and, secondly, existing LPs who are broadening their investment mandates and moving into direct investments, typically as “managed” investments, to get relevant (direct investment) experience.

Given that general partners (GPs) are usually either in fund raising mode or are preparing for the next fund raise, LP requests are most often respected and accommodated. However, making a co-investment a “win-win” situation takes effort from both sides. From our perspective, key is that all intentions and expectations are transparently outlined from the beginning and agreed up front. For instance, where-

## **Fabian Whate**

**Investment Professional: Ke Nako Capital**



We have seen a record level of co-investment deal flow over the last 12 months, indicating that co-investment is indeed an increasing trend. This is not surprising given its attractiveness for both LPs and GPs. For LPs it represents an opportunity to outperform fund investments, due to lower or zero fees and positive deal selection. For GPs it represents an opportunity to broaden their deal pipeline by looking at larger deals and also allows them to do so without the complexities of club deals. This however doesn't come without risk to all parties. LPs face adverse deal selection risk (i.e. the risk that GPs are more likely, for various reasons, to give co-investment on less attractive deals) and GPs face increased deal execution risk by relying on a commitment from co-investors. At South Suez we mitigate adverse deal selection risk by employing a highly experienced and dedicated co-investment team and applying a rigorous due diligence and selection process.



Additionally, we pride ourselves on clear and expeditious communication with the GP regarding our interest, which we believe makes us a preferred party for GPs.

We have seen positive developments in how GPs interact with investors. It has become increasingly rare for GPs to offer preferential co-investment rights to first-close investors. We see this as a positive development as it allows the GP to access a broader base of co-investors and to interact

with investors who bring maximum value-add to the deal. Also, many GPs have introduced co-investment policies and procedures, which streamline the co-investment process and provide clear guidelines on a range of issues, including how to share expenses and decision-making. Finally, GPs are interacting with potential co-investors earlier in the deal process and enhancing transparency through greater information sharing. 📱

## LP PERSPECTIVES



**Sbu Luthuli**

Chief Executive and Principal: Eskom Pension and Provident Fund (EPPF)

***What importance do you place on the private equity manager's ability to execute a value-creation strategy with portfolio companies?***

**SL:** The general partners (GPs) that the EPPF backs are mainly opportunistic and growth-oriented. They invest alongside and in support of management teams.

In a challenging and low-growth environment such as the one that South Africa is experiencing at present, GPs have realised that being a pure passive minority investor is sub-optimal to generating attractive returns. GPs have to be hands-on with management in driving growth prospects of the underlying portfolio companies. Value-add is critical in differentiating one team from another. Portfolio company management teams would prefer to partner with GPs that can add value. We expect that private equity returns are driven by earnings before interest, tax, depreciation and amortisation (EBITDA) growth as a result of value-add activities, instead of the rerating of enterprise value (EV) to EBITDA multiples.

A key trend we have noticed is that some GPs have placed more emphasis not only on acquiring business on lower multiples, but on the quality of the business they acquire and the strong market position or segment it occupies.

***What returns do you require from private equity managers with whom you invest?***

**SL:** In line with the EPPF private equity mandate, we conduct managers selection to choose GPs that are capable of generating high returns – an internal rate of return of approximately 25% – within acceptable risk budgets.

***What is the nature of the mid-market opportunity for private equity?***

**SL:** South African GPs have to convince LPs that they can find performance in a low-growth environment. South African private equity managers in the mid-market space – those writing cheques of R50 million to R150 million – are still finding value and extracting performance by being hands-on investors. Funds such as Pan African Private Equity (PAPE) and the Ethos Mid-Market Fund 1 are mid-market funds to which EPPF made commitments during 2016.

***What developments are you seeing in fund raising by Southern African private equity managers?***

**SL:** Fund raising in the South African market has been extremely challenging. Traditional investors that have seeded private equity firms in the past – the development finance institutions (DFIs) – have been thin on the ground in terms of dispersing funds to private equity firms. The DFIs have been wary of perceived political risk, volatility of the rand and South Africa being in somewhat of a no-man's-land in terms of the level of development. With the exception of a few, South African pension funds do not understand private equity or the benefits of having exposure to the asset class.

The difficulties of raising funds has seen two large private equity firms (Ethos and Sphere) opting to implement permanent-capital structures to minimise or obviate the need for fund raising. Ethos recently went the permanent capital route by listing Ethos Capital on the JSE and raising R2 billion. One of the objectives of the listed vehicle is to provide a speedy way to raise cash and provide a liquid entry point to investors that would typically not invest in private equity strategies. Fund raising has historically taken too long in South Africa and this is still the case. 📱



# Realising growth

A string of exit announcements over the past year by private equity managers in Southern Africa and sub-Saharan Africa points to firm investor sentiment in the region, and is testament to the opportunities created by the industry. The steady realisations trend is expected to continue throughout 2017.

One of the prominent themes for private equity during 2016 was its exits performance, with a number of mature assets having been put up for sale. Johnny Jones, associate partner



at Vantage Capital, attributes the realisations performance to the degree of investor confidence in the region. "The past year was a relatively weak year for many African economies, so to have such robust exit performance speaks to the resiliency of private equity firms' portfolios and the strong interest in portfolio companies by strategic and financial investors."

In a similar vein, Dabney Tonelli, investor relations partner at Helios Investment Partners, says: "Looking at our own portfolio, we are encouraged not only by the returns generated, but also by the diversity of our exit paths, which we believe demonstrate that market-leading businesses of scale in Africa can attract high-quality international buyers."

Andrew Dewar, managing director of Rockwood Private Equity, says: "The returns from these two assets since acquisition in 2006 and 2007 respectively have been significant.



In aggregate, the IRR achieved is 24% and a times money back of almost seven was achieved. We are proud to say that, in terms of gross proceeds, these are amongst the largest exits ever concluded by private equity funds in South Africa, with combined gross exit proceeds exceeding R9.4 billion.

"These returns demonstrate that South Africa remains a really great country for private equity and that superb outcomes are achievable with the right business, strategy, management team, BEE partners and fund manager – irrespective of economic cycles and political changes," says Dewar.

On the infrastructure front, Ed Stumpf, investment director at African Infrastructure Investment Managers (AIIM), says the most material exit for AIIM in 2016 was the sale of toll road interests held by the South African Infrastructure Fund for a consideration in excess of R4.5 billion: "This exit was ground-



breaking in the evolution of the infrastructure asset class in South Africa."

Dheseen Moodley, Investment Director at AIIM, adds that the case is highly compelling in Southern Africa: "During 2016, there were ten exits of operating assets in the renewable energy sector. We've seen a lot of institutional investor appetite for yielding infrastructure assets. There is increasing understanding of the merits of infrastructure."

## MANAGING THE EXIT IN A WORLD OF COMPLEXITY

There is material variation in the exit friendliness of different jurisdictions across sub-Saharan Africa. Part of the challenge, according to Stumpf, is that the buyer universe is quite variable depending on the specific jurisdiction, and that issues such as political uncertainty, currency volatility and commodity-price fluctuations have an impact both on optimal timing for an exit and the size of the buyer universe.

Vantage's Jones adds that the sub-Saharan African business environment is far less mature than those of other markets: "In this region, it takes a longer time to realise the value addition – be it improved financial controls, better corporate governance, stronger management talent, or effective business strategy, which help private equity managers exit investee companies at attractive valuations. Thus, the relatively short-dated investment-to-exit cycle of three to five years can be more difficult to achieve."

The buy-and-build approach has been one way to manage the time-frame constraint. "One theme we've noticed is that some investors were willing to pay a higher premium for acquisition targets that could be integrated into the buyer's larger platform of similar businesses in the sector. These integrated acquisitions can often create substantial value for the acquirer in a relatively short time frame," says Jones.

Keith Woodhouse, partner at Hogan Lovells, has witnessed an increase in the use of secondary buyouts as a way of exiting: "This demonstrates that the private equity market in Africa is maturing. It is also evidence of some private equity houses needing to achieve exits. This need to exit is typically the case where the funds are reaching the end of their life cycle or where there is a need to support future



capital raises.”

Meanwhile, Tonelli continues to see interest from financial and trade buyers: “In particular, we are seeing more interest in Africa from Asian trade buyers than before. Furthermore, there is significant demand from the local exchanges for a greater supply of IPOs as domestic pools of capital grow and need a home.”

Nevertheless, John Bellew, partner and head of private equity at Bowmans, notes that the IPO exit route outside of South Africa is not as viable as it should be. “This means a greater need to exit via self-funded exit routes or auction processes. Note, though, that with the amount of capital that has been raised for sub-Saharan Africa in recent years, the pool of potential financial purchasers has increased substantially and there is healthy competition for good assets.”

### HIGHER EXIT VOLUMES AHEAD

With a number of private equity funds nearing maturity and in the process of realising their investments, the healthy level of exits activity is set to continue in 2017. Anthonie de Beer, partner at Ethos Private Equity, says: “We anticipate better earnings growth in 2017 in comparison to 2016. This should provide acquirers with greater confidence in the growth prospects of target businesses. Increased confidence should also narrow the price gap between buyers and sellers, translating to higher exit volumes.”



Anthonie de Beer

Michael Rudnicki, KPMG Head of Private Equity for Southern Africa, affirms that the exiting trend will remain robust in the coming years: “Strong portfolio management teams, saturated markets in South Africa and the lack of growth in the rest of the world in the private equity sector, remain of interest to the international private equity investor market seeking exposure to the African continent.” 🌍

## PRIVATE EQUITY EXITS IN SOUTHERN AFRICA

2016–2017 (to date)

Source: Africa Global Funds

Vantage exits TrenStar

Ethos sells CQS stake for over R200 million

Actis to sell EMP to Network International

Stellar Capital exits Tellumat

South Africa Infrastructure Fund sells Toll road assets to PIC, Old Mutual and others

Rockwood and Thebe exit Safripol to KAP

RBH and Kutana acquire major assets from Aveng

Steinhoff buys Actis’s stake in Tekkie Town

Rockwood sells Tsebo to Wendel

Absa exits RainFin

Hermes-Sojitz exits Sinopac

Tana exits Promasidor to Ajinomoto

Evolution One Fund exits four renewable energy assets

# TRANSACTORS TALK

## Sandeep Khanna

Managing Director: The Abraaj Group



*The Abraaj Group has featured prominently in deal-making headlines over the past year. What has your focus been?*

SK: The past year has been one of significant activity for Abraaj. Within the group there has been a focus on exits across East and West Africa. In addition, following the successful closing in 2015 of the \$990 million Africa Fund III, Abraaj closed its circa \$1 billion Global Healthcare Fund, which will have a large portion of its focus in sub-Saharan Africa. We recently bought a fast-growing hospital in India, focusing on affordable healthcare, and are now working to bring its business model to Africa. We believe the demographic and other similarities offer a significant opportunity to build on our already sizeable healthcare portfolio in Africa with a view to creating a regional and global network of affordable and high-quality hospitals.

We continued to build on our thesis of consumer-driven African markets with expanding and rapidly urbanising populations, and in October 2016 finalised our acquisition of a minority stake in Indorama Fertilizers B.V. in Nigeria, the largest urea fertiliser manufacturer in sub-Saharan Africa. It operates a world-class, 1.4 million metric tonnes per annum urea manufacturing facility, which has been developed to global environmental, social and construction standards. It plays a key role in supporting the agricultural sector in Nigeria by providing a reliable supply of fertilisers for local farmers, thereby enabling import substitution and supporting the diversification needs of the Nigerian economy.

The fertiliser industry is expected to experience long-term demand growth as increases in populations and incomes drive demand for food. Abraaj will use its expertise and networks to support Indorama's market penetration and future expansion plans, as well as help ensure best-in-class corporate governance.

*What are the opportunities in sub-Saharan Africa over the medium term?*

SK: We find that certain trends that are driving investment opportunities are largely common across growth markets and hence across all of Abraaj's core markets. For example, the sub-Saharan African economy doubled from 2005 to 2015; the driving dynamics such as continued urbanisation, the growing middle class and technological advances, are expected to continue until 2025.

It follows then that investment opportunities in these markets are characterised by private investment in consumer sectors. Over the next five years, consumer sectors are expected to nearly double in Abraaj's core sub-Saharan African countries. Nigeria, South Africa and Kenya alone are projected to increase by over \$450 billion from 2015 to 2020.

If we look more specifically, sectors such as education, household goods and services, healthcare goods and services, transport and catering/food are all expected to grow at compound annual growth rates of more than 11% in US dollar terms to 2020, significantly outpacing overall GDP growth of around 5%. We see these as attractive sectors in which to invest and with which to build pan-regional platforms through a combination of organic and acquisitive growth. With the infrastructure backlog in both South Africa and most other growth markets, the industrials space is also a sector offering significant potential.

*What are your more immediate expectations – what do you believe will be the notable trends in 2017?*

SK: We expect market conditions to improve somewhat, and for investment opportunities to increase, with the valuation-expectation gap reducing and secondary market volume becoming more prevalent given the number of 2005-2010 vintage funds. Similarly, there should be an increase in general investment activity with many funds targeting Africa having recently closed. It is good time to invest. 📈

# CASE STUDY



**Asset:** Emerging Markets Payments Holdings  
**Private equity manager:** Actis

The story of the “buy and build” investment that created the leading payments platform in Africa and the Middle East and resulted in a \$340 million exit.



For millions around the world, life would be unthinkable without the convenience and flexibility of plastic cards, ATMs and electronic payments. Yet in Africa and the Middle East the vast majority of transactions are still in cash.

In Africa, only around 20% of the population is banked; about 0.98% of transactions are still in cash and less than 1% of personal consumption expenditure occurs at a point of sale machine (compared to 50% in North America). However, the region is one of the fastest-growing payments markets in the world as it follows the global trend to move from cash to electronic payments.

Actis had the vision to identify the opportunity that this behavioural change presented. It had seen the development of the payment sector in Asia and Latin America and, through its investments in banks across North, South, East and West Africa, knew that there was an increased issuance of cards to the urbanising populations in these regions.

The thesis was to launch a “buy and build” to create the region’s leading payments platform – buying existing small-scale businesses and then building them out organically to create a scale enterprise.



Every transaction has two halves – for every person who goes into a shop to buy something there is a shopkeeper who wants money on the other side of the transaction. Actis sought to benefit from each end of the transaction – having

bought the largest bank processing business in Africa, the platform then bought the largest merchant acquirer in the region. It added in a third layer providing issuing, acquiring and hosting for the untapped retail card market.

The three newly acquired complementary businesses in Egypt, Jordan and South Africa were consolidated and rebranded into the Emerging Markets Payments Holdings (EMPH) platform.

This was by no means a smooth process. The purchase of Visa Jordan took place in 2011, in the midst of what came to be known as the Arab Spring. Actis has been investing in emerging markets for 70 years and remained confident that the thesis that the people of Africa and the Middle East, particularly the younger demographic, wanted the convenience and security of electronic payments and that this demand would survive any short-term political ups and downs.

The acquisition of Visa Jordan was a turning point in the life of EMPH, providing it with scale, starting to prove that the buy and build strategy could be implemented, and introducing a very important business line for EMPH’s client offering.

Actis built a first-rate management team by recruiting from businesses like MTN and Barclaycard. The team was instrumental in driving growth and transforming the size and scale of the business.

Actis worked closely with management, under the leadership of Paul Edwards, to deliver 30% p.a. growth by expanding into West and East Africa and instituting international governance standards for the business. The company has grown from one office in Cairo to offices across Africa and the Middle East, including Amman, Cape Town, Lagos, Nairobi, Dubai, Port Louis and Accra.

By 2016 EMPH had the broadest footprint of any payments company on the continent. It contracts with 140 financial institutions across 45 countries, at more than 35 000 retail outlets, and delivers processing for all the major card schemes. EMPH hosts millions of cards and processes more than six transactions a second, with billions of dollars worth of transactions a year.

In April 2016 Actis sold EMPH to Network International in a \$340 million transaction. 🍎



# Value creation with private equity

**Andrei Vorobyov**, Partner at Bain & Company, provides a management consultant's framework for approaching value creation.

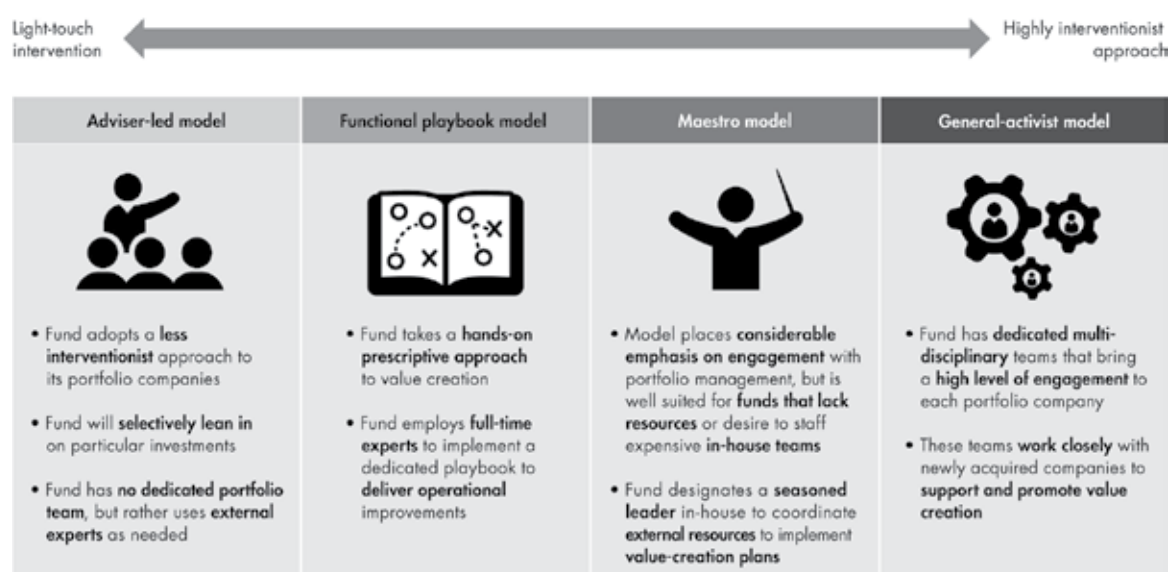


Historically, private equity firms have benefited from market beta – underlying economic growth, rising equity values and readily available low-cost debt – to help deliver attractive returns. With these passive forces waning, private equity firms are having to further develop the skills needed to drive sustainable attractive returns (alpha) through active value creation.

African private equity firms face similar challenges, but compounded by a number of additional factors, including increasing competition for a limited number of attractive assets, renewed macroeconomic headwinds (including subdued commodity prices and growing political uncertainty) and difficult local operational conditions (from opaque business practices to limited depth of management capabilities).

While there is no “silver bullet” for private equity firms looking to achieve sustainable value creation, Bain & Company has observed four archetypal approaches used to create value at portfolio companies (see chart below):

- The adviser-led model. Private equity firms that adopt an adviser-led approach typically take a less interventionist approach to their portfolio companies, selectively using external experts to lean in on particular investments.
- The functional playbook model. Private equity firms that adopt the functional approach typically employ full-time experts who implement a dedicated playbook with initiatives that improve business processes, reduce costs or deliver other operational improvements.
- The maestro model. Private equity firms that adopt the maestro approach typically designate a seasoned leader within the firm, who will coordinate a flexible team to develop and implement value-creation plans.
- The general-activist model. Some larger private equity firms build portfolio activism into their DNA with dedicated multidisciplinary portfolio groups, which work closely with acquired companies.



Source: Bain & Company



While portfolio activism in Africa is in its development stage, some funds are already actively driving sustainable value creation. For example, Ethos, the South African-based private equity firm, often utilises the maestro model, whereby a senior leader co-ordinates members of the deal team to add value in its portfolio companies. In other situations, where the fund sees more scope for value addition, it will deploy a broader general-activist model using its dedicated in-house “value-add team”, supplemented with external qualified advisers where relevant.

We believe that Africa is an attractive investment destination for private equity, but it is becoming evident that funds cannot rely on market beta alone and will increasingly need to further develop and strengthen their value creation capabilities. Each private equity firm should carefully consider their distinct approach to value creation based on their specific strategy, size and operating model. In general, a balance should be struck between developing dedicated expertise in house and flexibly leveraging trusted external resources with a track record of delivering results. 🍎



## VALUABLE PARTNERSHIPS

**Richard Fienberg**, Partner – Value Creation: Ethos Private Equity, provides pointers for successful partnerships between private equity and their portfolio companies



### *What is the role of value creation in private equity?*

**RF:** The role of value creation in private equity is to work with portfolio company management to accelerate the growth of their business and to assist in the execution of strategies, ensuring these are executed successfully within a specific time-frame.

### *What are the two key factors to know and apply when implementing value creation at a portfolio company?*

**RF:** First, the deal team and executive management must be fundamentally aligned on the company strategy. They also need to ensure that all the fundamental issues within the portfolio company are dealt with openly and transparently as early as possible in the relationship. Secondly, there needs to be conviction and belief in the value creation process because business is challenging, and these transformations are not easy. Resilience and patience are required.

### *What is the key to successful scaling of the business?*

**RF:** A business can be successfully scaled up through an organisation building a systematic approach into its processes

and disciplines. This will be achieved through the development of a clear plan. One can't just wake up in the morning and decide which way the wind is blowing, so to speak. One needs to have a clear plan and to commit resources and drive delivery in a disciplined way.

CEOs need to provide leadership that engages the team and gives them clarity, direction and confidence in what is expected of them. It is about having the right leaders, people with a degree of professionalism and who have seen what the best is in a particular field or discipline and are able to apply it successfully in their company.

### *What would you list as the measures of success for a business in the value creation process?*

- Strong, professional, energetic leadership team;
- Clear strategy and executable plans;
- Intensity and commitment to delivering results;
- Ability to adapt to changing circumstances;
- Attract good talent;
- Quickly develop a strong growth track record. 🍎

# Nothing ventured, nothing gained

The growing interest and activity in South African venture capital signifies an evolving and expanding opportunity for investors and entrepreneurs.

South Africa's venture capital (VC) ecosystem is evolving, with more fund managers entering the industry and growing investor interest in the asset class.

According to Brett Commaile, lead partner at AngelHub Ventures, there was substantial VC activity in 2016. "We've had some relatively large funds raised over the year, and more corporates are getting into the space. Companies are realising that they need to look at startups for innovation."



The past 12 months have seen a healthy number of new and follow-on VC investments in technology-enabled businesses. For example: GroTech invested in business management and accounting system SMEasy; Invenfin acquired a stake in health informatics company LifeQ; Kingson Capital backed Spazapp, a mobile stock-ordering platform for informal retailers; and AngelHub Ventures made a follow-on investment in e-learning startup Snapplify.

The interest of VC firms extends well beyond ICT-type businesses. Savvy Capital Partners, for instance, has in its scope also more conventional industries such as agriculture and housing, while Invenfin made growth capital investments into three premium food companies during 2016.

manufacturing, and sales and distribution capabilities."

Many VC fund managers are also monitoring investment opportunities in the rest of continent. "The more problems the continent has, the more business opportunities are created," notes Clive Butkow, CEO of GroTech.

Thabo Ncalo, managing partner of Savvy Capital Partners, is enthusiastic about the potential in countries such as Mozambique, Tanzania, Kenya and Ethiopia. "There are many traditional sectors that can benefit from some venture capital money. For example, in Mozambique we are looking closely at SMEs in the agriculture space – it could be a banana grower that wants to venture into banana flour, or a honey producer in Maputo looking for \$500 000."



The industry is benefitting from improving collaboration among VC fund managers who tend to regard one another as potential co-investors, as opposed to rivals. "It is very short-sighted to view other VCs as competitors. We all need to work together. We are quite keen to co-invest, as one sees happening in more mature markets such as the US," says Gavin Reardon, principal partner of Kingson Capital.

*"We've had some relatively large funds raised over the year, and more corporates are getting into the space. Companies are realising that they need to look at startups for innovation."*

*– Brett Commaile, AngelHub Ventures*

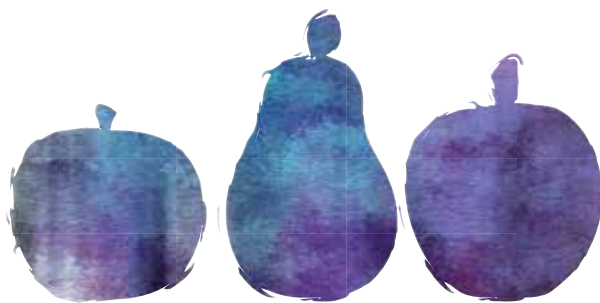
Invenfin executive director Stuart Gast says emerging, innovative food companies are increasingly gaining market share, presenting opportunities to one day sell these investments to more established players. "Big food groups often



struggle to innovate internally and may rather choose to acquire innovative new brands. This can lead to exits for smaller producers into larger food businesses, which then have the capacity to make these relatively smaller brands even more successful through their highly developed

## GROWING CORPORATE INVOLVEMENT

Corporate South Africa is increasingly getting involved in the VC industry, especially banks and financial services companies trying to stay on top of digital disruption by supporting fintech incubators and investing in startups. For instance, Exponential Ventures, the externally focused innovation unit of insurance group MMI Holdings, is the main investor in a R256 million technology venture capital fund managed by 4Di Capital. In addition, Standard Bank recently acquired a majority stake in Firepay – the team behind South Africa's largest mobile payments product SnapScan, while insurer Santam sponsored a blockchain hackathon.



The year 2016 also saw the announcement of the new SA SME Fund, supported by some of the country's largest companies, aimed at stimulating entrepreneurs and high-growth businesses. An initial amount of R1.5 billion has been committed and it is expected some of this capital will find its way to VC firms.

New Enterprise and Supplier Development (ESD) requirements of the Broad-Based Black Economic Empowerment (B-BBEE) codes of good practice are also incentivising companies to invest in the development of black-owned small businesses. This has created demand for specialist ESD venture fund managers such as Edge Growth, which is already managing ESD funds for a number of South African corporates.

"The development pillar of the BEE code acted as a significant tailwind to our business and the funds we have raised have been predominantly on the back of the BEE codes," notes Daniel Hatfield, managing director of Edge Growth.

## FUND RAISING ENVIRONMENT

In terms of fund raising, South African VC funds have received a welcome boost from section 12J of the Income Tax Act, that allows taxpayers to deduct 100% of their investment in approved venture capital companies (VCCs) from taxable income. Although this initiative was first implemented in 2009, recent amendments have made the scheme more attractive. Currently there are over 40 approved section 12J VCCs.

But Clive Butkow of GroTech says more marketing is required to make investors aware of tax advantages of investing in these VCCs. "I don't believe enough taxpayers and retail investors are aware of this alternative asset class."

While South Africa's sluggish economic growth, forecast by the IMF to be 0.8% in 2017, is having an impact on fund raising, Brett Commaile of AngelHub Ventures says the biggest challenge by far is the relatively low participation from institutional investors, such as pension funds, in the industry.

In fact, Commaile believes a less supportive macro-economic environment for JSE-listed companies could even help drive investment to VC funds.

"In a large listed business it is very difficult to get 10% growth when the economy is slowing down. But in a startup you might be able to get two to three times growth in one year." 🍌

## ENTERPRISING PARTNERSHIPS

*Who are you?*

**4Di Capital**

*What do you do?*

4Di Capital manages several venture capital funds that look for and focus on scalable investment opportunities in the technology space with a particular focus on fintech, healthtech and insurtech opportunities.

**Most recent success:**

In 2016, 4Di Capital successfully raised R250 million from Metropolitan Capital for investment by its latest fund, 4Di Exponential Tech Fund 1.

*Who are you?*

**GroTech Disruptive Technology Fund**

*What do you do?*

We invest in post-revenue startups, not yet post-profit ventures. Our focus is not only on funding and smart capital, but also on delivering smart returns.

**Most recent success:**

Our disruptive tech fund is focused on investing in entrepreneurs solving African problems. With our highly experienced Board we partner and collaborate with entrepreneurs. GroTech raised R62 million in 2016 and we are now raising an additional R38 million.

*Who are you?*

**Kingston Capital**

*What do you do?*

Early-stage and expansion capital in ICT, energy and healthcare industries in South Africa with a balanced risk-return profile approach.

**Most recent success:**

First round of investor funds raised in Q3 and Q4 of 2016 have enabled us to conclude three deals: Spazapp (25.1%); TrustED Bursaries (25.1%) and FinFind (30%). We have three due diligence processes underway now.

*Who are you?*

**Vumela**

*What do you do?*

The Vumela ED Fund contributes to poverty alleviation by creating jobs as well as a return for Fund beneficiaries. Vumela assists companies with growth capital of R2 million to R20 million and provides post-investment business development support, ensuring appropriate growth strategy, corporate governance and financial structures.

**Most recent success:**

R15 million investment into Pioneer Academies, an independent school network offering excellent and affordable enquiry-based education. 🍌



# A fruitful partnership to support venture capital in Southern Africa



SAVCA continues to show its commitment to the promotion of the venture capital (VC) asset class through its third round of funding provided to SiMODiSA, an industry-led organisation, which advocates on behalf of the South African entrepreneurial community.

SAVCA's most recent VC survey, which tracked South African VC industry activity from 2011 to 2015, shows that there were 168 new deals completed by 21 public and private VC fund managers and angel investors during this period, and that the South African VC industry accounts for nearly R2 billion in funds under management. While this points to lively activity in the industry, a number of constraints limit access to capital by entrepreneurs and inhibit investment opportunities for VC fund managers.

SiMODiSA is a South African-based public-benefit organisation that was established to lobby for the venture capital asset class and advocate for policy change to help small and medium-sized enterprises and start-ups overcome such barriers to entry and thereby to help nurture the entrepreneurial ecosystem.

To extend its reach in promoting the VC asset class, SAVCA has for the past three years partnered with SiMODiSA. This partnership included SAVCA providing financial support to SiMODiSA totalling more than R1 million.



Matsi Modise

like-minded entrepreneurs talking about industry-related matters, to becoming a formalised, effective and accountable organisation. We already have made successful advocacy interventions and have delivered insightful research on the South African entrepreneurship ecosystem and what it needs to reach its potential," says Modise.

Samantha Pokroy, a SAVCA director and chairperson of the SAVCA VC Sub-Committee, expresses SAVCA's commitment to supporting and sponsoring the advocacy work conducted by SiMODiSA. "SiMODiSA's initiatives play an important role in helping SAVCA meet its own objectives to promote VC as an attractive asset class and an important driver of growth and innovation in South Africa, and to build a representative and transformed VC industry, thereby expanding its impact".



Samantha Pokroy

*"SAVCA is pleased to be supporting and sponsoring SiMODiSA for the third year running. SiMODiSA's work since its inception has gone a long way towards identifying and shifting the key levers that we as an industry and nation can pull to enhance the landscape for entrepreneurship and related economic growth." – Dave Stadler, SAVCA Chairman*



Dave Stadler

SAVCA chairman Dave Stadler says: "SAVCA is pleased to be supporting and sponsoring SiMODiSA for the third year running. SiMODiSA's work since its inception has gone a long way towards identifying and shifting the key levers that we as an industry and nation can pull to enhance the landscape for entrepreneurship and related economic growth."

SiMODiSA managing director Matsi Modise says the partnership with SAVCA has introduced resourcing which enables SiMODiSA to deliver on its vision and objectives.

"The support from SAVCA has enabled SiMODiSA to evolve from being a voluntary association of passionate

"Already SiMODiSA has played an important role in driving and supporting important policy improvements. Through SAVCA's role on SiMODiSA's advisory board, we are pleased to be working with fellow supporters and sponsors [FNB and Department of Science and Technology] to boost entrepreneurship in South Africa and create and support numerous investment opportunities for SAVCA members to back," says Pokroy. 🍌

## ENTERPRISING PARTNERSHIPS

**Who are you?**

### **LinkMakers Capital**

**What do you do?**

A majority black owned Enterprise and Supplier Development Fund serving corporates and multinational corporations operating in SA by sourcing, selecting, building and investing in black-owned SME suppliers.

**Most recent success:**

Established and implemented integrated business development and risk mitigation support with tiered investing, specialising in equity investments between R500,000 to R5 million, built on the back of an SME portfolio of 302 businesses that grew revenues 62,8% in 2016.

**Who are you?**

### **KNF Ventures**

**What do you do?**

SARS s12J VCC providing growth funding for South African innovation-driven SMEs with proven traction.

**Most recent success:**

KNF Ventures had a successful first close in August 2016 with an active entrepreneurial investor base and is working towards a February 2017 second closing. KNF is managed by Knife Capital (also managing HBD's VC portfolio) and its quality deal pipeline includes Grindstone Accelerator companies. The management team facilitated lucrative VC exits of local technology companies to the likes of General Electric, Visa and Garmin.

**Who are you?**

### **Invenfin**

**What do you do?**

Growth stage venture capital investment in IP-based businesses (e.g. technology, food and beverage, FMCG, etc.)

**Most recent success:**

Invenfin had an exciting 2016, concluding new investments in De Villiers Chocolate (Paarl-based bean-to-bar chocolate manufacturer), Dynamic Commodities (Port Elizabeth-based frozen fruit and desserts manufacturer) and Joya Brands (Atlantis-based confectionery manufacturer). In addition, follow-on funding into existing investments included LifeQ (digital health informatics) and BOS Brands (rooibos-based ice tea products).

**Who are you?**

### **AngelHub Ventures**

**What do you do?**

Venture Capital / Equity funding for high-growth young businesses

**Most recent success:**

Building a portfolio of businesses with expanding international operations. In 2016, one venture (GoMetro) took a Series A round from a large media group and another (Snaplify) raised follow-on funding from investors including a UK-based Angel focussed on education. The fund will be expanding to further its goal of accelerating high-growth businesses from South Africa into international markets.

**Who are you?**

### **The Awethu Project**

**What do you do?**

We invest early-stage growth and/or buyout capital in South African SMMEs.

**Most recent success:**

Forming the SAB Thrive Fund, a pioneering Enterprise & Supplier Development fund, in partnership with AB InBev.

**Who are you?**

### **Savvy Capital Partners**

**What do you do?**

We manage alternative and frontier market investments, with a primary focus on venture capital in Southern Africa and expansion-stage funding for mid-market firms across Africa. We're currently raising Savvy Venture Fund I and 2 and Savvy Africa PIPE Fund.

**Most recent success:**

Receiving strong North American LP interest in our VC proposition and currently progressing discussions.

**Who are you?**

### **Venture Capital Management Services**

**What do you do?**

VCMS is the management services arm of the Grovest Group. VCMS is a group of Section 12J specialists who have a reputation for managing venture capital funds as well as the underlying investments. VCMS sources, filters, undertakes due diligence and facilitates the legal agreements for clients. VCMS provides investee companies with the capital and management support they need to optimise their potential and generate value through improved strategic, operational and human resource capabilities.

**Most recent success:**

VCMS has set up a suite of Section 12J funds called the Grovest Group, consisting of Grovest Venture Capital Company, Grovest Tech, Grovest Energy, Grovest Hospitality Holdings and the WDB Seed Fund, which collectively manage more than R300 million in capital. 🍀

# Navigating the regulatory landscape

Craig Dreyer (Ethos Private Equity) and Richard Flett (Horizon Equity) reflect on SAVCA's legal and regulatory engagement on behalf of members.

*SAVCA worked on various regulatory, legal and tax matters during 2016. What were some of the major developments over the period?*



**CD:** SAVCA continued to be active in responding to draft regulation and legislation on a range of matters, including the Draft Taxation Laws Amendment Bill, FAIS-related amendments and the Amended Financial Services Sector Code. We achieved notable successes in some areas, including the extensions granted on certain FAIS exemptions for private equity, welcome amendments to the Draft Retirement Reform Legislation in sections that have significant bearing on private equity, and the incorporation of our list of proposals into the Financial Sector Charter. Our advocacy work with regulators and policymakers is developing momentum.

**RF:** During the year SAVCA met with a large working group from National Treasury, the FSB and the South African Reserve Bank (SARB) to discuss the implementation of the Financial Sector Regulation (FSR) Bill, otherwise known as Twin Peaks. Our impression from this meeting is that little progress can be expected in developing a dedicated FAIS licence category for private equity until there is more clarity around how the FSR Bill will be applied to the industry. Since this may take some time, SAVCA members are advised that the existing status quo in respect of FAIS licencing will continue to apply. SAVCA will continue to seek exemptions for certain provisions under FAIS and will apply to renew existing exemptions which terminate on an annual basis.

Reporting obligations for South African institutions under Common Reporting Standards (CRS) commenced on 1 March 2016. The first reports to SARS for the year ending 28 February 2017 are due by 31 May 2017. Unlike its sister legislation FATCA, we expect a number of South African fund managers will have to file a full report as compared to a nil report. There are significant technical hurdles in reporting in the format required by SARS, which may require the services of a third-party service provider. SAVCA lobbied SARS during 2016 to provide a more user-friendly and simplified reporting tool, which is unlikely to be available for the first reporting deadline. Due to lingering uncertainty of an alternative solution, our recommendation is that members engage the services of a third-party service provider.

*What is on the legal and regulatory agenda for 2017?*

**CD:** SAVCA will continue its positive and constructive engagement with the FSB to secure suitable FAIS legislation by way of a specific licence category for private equity. We expect developments to get underway once there is progress with the implementation of the Twin Peaks regime.

Meanwhile, SAVCA has engaged its members on exchange control concerns limiting the growth of the private equity and venture capital industry in South Africa. These views, together with suitable and realistic proposals, will be submitted to the SARB.

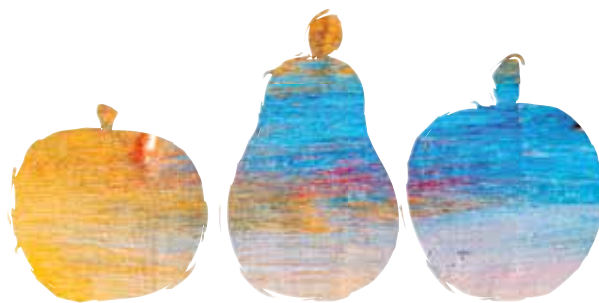
**RF:** We are hopeful we may see some relaxation in 2017 of exchange controls in respect of intellectual property and international funding of South African start-ups and growth business. This follows an initiative led by Webber Wentzel in which SAVCA participated, along with a number of its venture capital members and SiMODiSA. The initiative focused specifically on exchange control regulation of intellectual property.



Global regulatory developments also continue to be a factor for Southern African private equity and venture capital managers. The introduction of the OECD Base Erosion and Profit Shifting (BEPS) regime is likely to have unintended consequences for the private equity industry, even though this is not the primary target of the initiative. In particular, funds domiciled in offshore locations are at risk of additional taxation as a result of the withdrawal of tax treaty benefits. This is a global issue and SAVCA is co-operating with Invest Europe to co-ordinate submissions to regulators and policymakers around the world.

**CD:** SAVCA will continue to track legal, tax and regulatory developments on behalf of its members, while lobbying the various authorities to ensure that regulation and legislation are appropriate to ensure the longevity of the private equity and venture capital industry. We are pleased to have made a senior appointment at SAVCA to facilitate this vital work: Shelley Lotz joined the executive team at the end of 2016, as head of regulatory affairs. Shelley has the support of the SAVCA Regulatory Sub-Committee and the SAVCA Legal and Regulatory Council, which are comprised of members who give freely of their time and expertise. 🙌

# Lobbying for venture capital companies



Shelley Lotz, the newly appointed SAVCA head of regulatory affairs, talks to SAVCA director Samantha Pokroy (Sanari Capital), about the Section 12J investment vehicle incentive (also referred to as the venture capital company (VCC) regime) as contemplated in the South African Income Tax Act. Although this section was introduced in 2009, it took a number of years to gain traction as the original legislation was restrictive and impractical to implement. Samantha has led SAVCA's efforts to lobby National Treasury to enhance and update the legislation over the past few years.



**SL: What problem was National Treasury seeking to address with this incentive?**

**SP:** National Treasury wanted to address the challenge of small and medium-sized businesses gaining access to equity finance in order to stimulate economic growth and job creation. They introduced a tax incentive (referred to as Section 12J) for investors to direct capital towards these businesses.

**SL: Is Section 12J limited to traditional venture capital firms only?**

**SP:** No, although the legislation refers to venture capital in its name, its application is more broadly focused on equity investments in small and medium-sized businesses operating at different stages of evolution, from start-up through to mature businesses. This makes it a suitable investment vehicle for both venture capital and private equity investments that meet certain prescribed criteria, most notably size-related.

**SL: What are the benefits for investors in a VCC company?**

**SP:** Investors can claim amounts incurred on acquiring shares in a VCC as a deduction from income in their tax calculation, in the year in which the investment is made. This deduction will not be subject to recoupment if the VCC shares are held for longer than five years. VCCs must be authorised by SARS in order to obtain tax-deductible status for their investors.

**SL: SAVCA has been very involved in discussions with National Treasury and SARS on Section 12J in order to achieve the intended objectives of the legislation. What were the main themes discussed and updated in relation to Section 12J in 2015 and 2016?**

**SP:** The main developments are:

- National Treasury agreed to make the deductions permanent if investments in the VCC are held for a minimum of five years, as compared to the original legislation, which stipulated that the deduction be recouped on a profitable exit;
- The limit on the total book value of assets for qualifying investee companies (post-investment) increased from R20 million to R50 million, and from R300 million to R500 million

in the case of junior mining companies;

- National Treasury agreed to amend the connected person requirement, allowing Section 12J vehicles to secure an anchor investor with the view to achieving sufficient further capital raising over a period of three years, so that no investor at that time holds 20% or more shareholding in the investment vehicle.

**SL: What other aspects of Section 12J is SAVCA working on in 2017?**

**SP:** SAVCA led a number of initiatives in 2016, which it will continue to progress with National Treasury in 2017. These include requests to:

- Provide clarity on certain terms and criteria in the existing legislation where there is ambiguity;
- Address certain technical issues that arise from their interaction with other sections of the Tax Act;
- Tackle certain fundamental economic and practical issues affecting the attractiveness of the Section 12J vehicle (including, but not limited to, the double taxation when capital gains tax is triggered within the Section 12J vehicle on sale of a business with additional dividends withholding tax paid on the distribution to investors). To date, SARS has not permitted tax transparent "flow through" entities such as partnerships to qualify for the relief under this section, resulting in this tax inefficiency. It is conceivable that this may be changed in future revisions to the legislation;
- Consider allowing for transferability of tax benefits and the possibility to claim the incentive as part of PAYE. These are changes which, if made, could result in a significant increase in the popularity of such investments, particularly for retail investors.

**SL: What growth has there been in the number of Section 12J funds?**

**SP:** In 2014, before the new changes in the legislation became effective, there were six Section 12J funds registered with SARS. This has grown to 42 over the last two years. Of these, 12 are managed by SAVCA members. 🍌





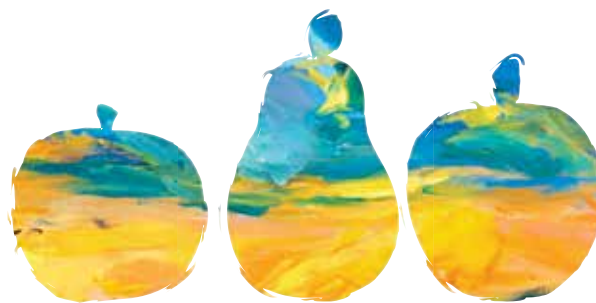
*The buck starts here.*

When the pen comes out, that's the start of big business. Because we believe in getting signatures that close deals. And our highly trained and skilled team will stop at nothing until they make it happen. With a history of successful investments and a well-developed network of financial and industry role players, we have exactly what you need to do business. We're thinking ahead. Are you?

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# CASE STUDY



**Asset:** Metrofibre Networkx

**Private equity manager:** Sanlam Private Equity

A private equity manager supports the transformation of a South African business into a globally recognised brand, while guiding it through its expansion strategy and enabling it to raise additional capital.



In 2010, South African companies were predominantly focused on the World Cup and its impact on the economy. Metrofibre Networkx (MFN), a small managed-bandwidth and internet service provider, had its focus way beyond that year. It understood that broadband internet was the future and in order for South Africans to truly benefit from this technology, a large-scale infrastructure build-out was critical.

MFN knew it had the technical capability to be part of this dream, but realised that it required the backing of a strong partner who also understood the potential of this market and had access to the capital to make it happen. It required a private equity partner that could deliver not only strategic insight and sound financial guidance, but also day-to-day operational advice coupled with a balance sheet that would back MFN's transformation from struggling SME to a national and globally recognised brand. Sanlam Private Equity (SPE) was that partner.



Understanding that connectivity and access to information was going to play an increasingly critical role in South Africa's development, SPE saw massive potential in MFN and an opportunity for its investors to benefit.

Early on in the relationship, SPE and the management team came to the realisation that by placing the responsibility for MFN customer relationships exclusively with external

organisations – third-party internet service providers – it was in fact putting the company's own future at risk. Therefore SPE recommended, and helped manage, MFN's move towards providing retail products directly to the customer, thereby fundamentally changing the trajectory of the company and reducing its reliance on outside parties.

A key aspect that has shaped the company's success was the committed relationship that SPE established with MFN, which saw it put in the hard yards to deliver a solution that yielded results for the business and the investors. Top SPE managers worked at the MFN offices on a weekly basis and were able to create an environment in which the MFN management team could rely on SPE's advice. SPE's support allowed MFN to navigate and innovate in line with market needs, and to find the confidence to push through necessary changes and shift strategy to meet market requirements.

SPE's insight and unique approach to investments, together with their appreciation of the importance of innovation, ensured a long-term understanding of the potential of MFN's business. SPE's partnership approach helped them overcome challenges and has taken MFN from a loss-making start-up to a company that is fast being recognised as a wholesale provider of carrier-grade Ethernet connectivity, and as a serious player in last-mile fibre solutions.

Since SPE's initial investment in December 2013, MFN's wholesale business has grown by 6.6 times (663%) and it has established a leading position in the relatively new fibre-to-the-home (FTTH) market. From a financial perspective, the business has grown its revenue by 5.7 times (569%) over the three-year period.

These are achievements anyone would be proud of – delivering results that investors appreciate. Furthermore, the success has ensured that the latest, and largest, round of fund raising to date was successfully concluded in December 2016. SPE has been instrumental in MFN's capital raising process over the last three years. The company has raised in excess of R500 million in equity from SPE and other financial and strategic investors during this period. The success of this capital raising effort confirms the confidence of the investors in MFN.

# TRANSACTORS TALK

## Andile Ngcaba

Chairman and Founding Partner: Convergence Partners



*What were some of the interesting deals in which you've been involved in recent months?*

**AN:** We have continued to see a large number of investment opportunities, which have been a combination of exciting technology innovation and new infrastructure projects. Most recently, we announced the launch of the Comsol national network, which provides high-speed enterprise-grade broadband using regulated radio frequency spectrum. This will provide fibre-like connectivity with the added advantage of rapid deployment in areas where the economics of fibre are more challenging, as well as providing redundancy to existing fibre deployments.

We are also overlaying an Internet of Things network on top of this infrastructure, which is another area where we see significant growth opportunities. In addition, we invested in a number of innovative technology solutions with local IP that is scalable and globally exportable, most notably Supt, e4, HealthQ and inQuba.

In expanding broadband access and services across sub-Saharan Africa, our regional platform Synergy Communications continues to grow its portfolio of enterprise-facing ISP assets. We are focusing the activities of this platform particularly on the East Africa region and are hoping to make an announcement regarding a sizable acquisition there soon.

*How has your capital raising of R2.5 billion contributed towards Africa's ICT infrastructure?*

**AN:** The Convergence Partners Communications Infrastructure Fund (CPCIF) is a specialist fund which makes investments that extend the reach and improve the quality and pricing of ICT in Africa. The capital we have to deploy is applied mostly to new ICT infrastructure and deepening the technology base of the continent, with investments in the broadband infrastructure and services layer. The result of this is improved access to quality and more affordable broadband. Having closed CPCIF in 2015, the primary focus is on capital deployment and portfolio management.

*What are the prospects for the ICT industry in sub-Saharan Africa over the coming decade? Are we likely to see investor appetite grow?*

**AN:** The African continent continues to offer significant growth opportunities in the ICT sector. This is due to the deficit in ICT infrastructure especially when compared to other emerging and developed markets. Even though there has been significant progress in improving and increasing the reach of communications infrastructure, a need remains to improve the quality of the networks and services on offer. As a specialist fund manager we see this is an opportunity to unlock the potential and value of existing and greenfield assets.

Furthermore, at Convergence Partners we are focused on keeping abreast with developments on 5G, even though these are three to four years away from being implemented. However, the preparations for this technology change are underway and it is critical that we understand how 5G will connect everything, especially on the African continent.

A number of the key investments we have made and are considering (including fibre, wireless and services) are in anticipation of the opportunities that 5G will bring. Therefore, we keenly are following developments in forums such as 5GPP, the ITU, Institute of Electrical and Electronics Engineers (IEEE) and many other organisations involved in the 5G standards setting and technology development process.

A key milestone in this process will be the World Radio Conference to be held in 2019 (WRC-19), which will be presented with recommendations on 5G, and hopefully agree the way forward for the implementation of this technology platform. We expect this technology to be a key driver of the much anticipated Internet-of-Things revolution.

Based on the above, we anticipate that there will be a significant need for additional funding to realise this future. We see increased appetite by both domestic and international investors in the sector to meet this demand for capital. Currently, the ICT infrastructure deficit and improvement to the quality of existing assets is primarily funded by the private sector and, in our considered view, this trend will continue. 📡

# DEAL TRACKER



## TECHNOLOGY AND COMMUNICATION

**Private equity manager** Carlyle Group  
**Target company** CMC Networks  
**Industry** TMT  
**Shareholding taken** 70%  
**Date** January 2017

### Comment

Carlyle has acquired a controlling stake in CMC, a leading provider of mission-critical, enterprise network connectivity solutions to global telecom carriers, multi-national companies and government institutions. CMC has over 100 network points of presence in over 70 countries in Africa and the Middle East. CMC's senior management and employees will remain significant shareholders alongside Carlyle.

**Private equity manager** Convergence Partners and Nedbank Private Equity (a division of Nedbank CIB)  
**Target company** Comsol Networks  
**Industry** TMT  
**Date** June 2016

### Comment

Convergence Partners, Nedbank Private Equity and IDC provided funding to Comsol for the initial rollout of its new network, Comsol Fibre Connect. The network is a first for South Africa, offering high capacity, uncontended wholesale connectivity to enterprise users backed by an enterprise grade SLA. It also provides the functionality to connect customers in both major metros and small towns within a matter of days.

**Private equity manager** Convergence Partners  
**Target company** inQuba  
**Industry** TMT  
**Shareholding taken** Significant minority interest  
**Date** March 2016

### Comment

inQuba enables its clients to create superior customer experience through its proprietary, cutting-edge software platform. Its client base consists of multinational corporations across a number of industry verticals on four continents. The injection of new equity by Convergence Partners will enable inQuba to accelerate its global expansion. Post the transaction, Convergence Partners holds a significant minority interest in inQuba.

**Private equity manager** Vantage Capital/Vantage Mezzanine Fund III  
**Target company** Vumatel  
**Industry** TMT  
**Deal value** \$17 million  
**Shareholding taken** Mezzanine investment  
**Date** April 2016

### Comment

Vumatel is an open-access fibre-network operator in South Africa. Since October 2014, Vumatel has rapidly become an industry leader in the fibre-to-the-home industry. Vumatel will use the investment from Vantage to fund the roll-out of its network in Johannesburg and Cape Town.

### Investment Highlights

- Founders have an excellent track record in establishing successful telecoms businesses
- Attractive industry with compelling unit economics and high barriers to entry
- Solid equity backstop with a strong equity partner
- Network designed for high performance and scalability
- Strong economic and social benefits associated with increased broadband availability



# Funding Africa's infrastructure gap

Private equity investment in African infrastructure has been an emerging theme over the past decade, with fund managers investing actively in infrastructure projects across the continent, in the energy, transport and ICT sub-categories. This trend is set to continue.

Investment into African infrastructure offers compelling exposure to African growth, while simultaneously helping to drive that growth. Unlike performances in other world regions, infrastructure assets in Africa continue to offer private equity-style returns and, moreover, enable private equity managers to invest in scale on a continent where there are limited investment opportunities of sufficient size.

According to Christopher Clarke, Managing Partner at Inspired Evolution Investment Management, critical funding is required to address the growing need to replace ageing and inefficient carbon-intensive power plants – predominantly coal thermal – as well as contribute to building least-cost, low-carbon clean and sustainable energy generation capacity to address the estimated 130 GW suppressed demand across sub-Saharan Africa's high-growth countries.

"Recently, these markets have been buoyed by the accelerated adoption of low-carbon energy policies by sub-Saharan African member states that are recognising the inter-dependence of power, GDP growth and socioeconomic development. New opportunities for private equity investment have opened up as capital constrained public utilities have pulled back their levels of investment as the scale of required investment continues to increase. Private equity will therefore play a critical role in the funding gap to get this new infrastructure build to market," says Clarke.

Vuyo Ntoi, Investment Director and Head of Southern and Central Africa at African Infrastructure Investment Managers (AIIM), agrees that private equity infrastructure in Africa will continue to grow and attract new players, while creating a positive impact for consumers. "In large, well-organised infrastructure markets on the continent, there has been a demand for investment opportunities. For instance, the South African renewables market has attracted attention from international private equity investors, creating a more competitive environment for project equity. The result of this has been positive for the South African power consumer, who will receive highly competitively priced renewable energy."



Emile Du Toit, Head: PAIDF 2 at Harith General Partners, says: "Private investors in infrastructure projects, especially through private equity vehicles, have proven over time that they can deliver infrastructure services at competitive tariffs, whilst simultaneously ensuring that risks related to cost overruns and time delays are not borne by the consumer, but rather by the private sector service providers".



The positive knock-on effects of infrastructure investment are significant, including the fostering of cross-border investments and facilitating regional integration. Additionally, these open up new opportunities for add-on or related investments. For example, a toll-road project creates the scope for property development and a host of other downstream investment activities.

"Specialist private equity funds with the experience and know-how, including relationships to institutional grant and debt providers, will remain key players in the funding gap to finance projects with a bias towards less-developed markets that require a more agile and innovative approach to converting infrastructure projects," says Clarke.

"Further, these specialist fund teams are far better suited to pivoting to new reduced-cost, higher-efficiency technologies and disruptive business model-driven solutions, even in mature markets, to ensure ongoing funding roles and healthy returns through financial innovation and creative deal structuring."

Private equity investment in Africa serves as a catalyst for development on the continent, in a way that fosters the achievement of targeted and specified developmental goals. Growth prospects are enhanced if infrastructure is made more efficient and can better support the flow of economic activity. Moreover, because this asset class entails equity ownership, the fund manager has influence and can define and shape the philosophy and principles by which the funded organisations and projects operate.

Through its growing participation in African infrastructure, private equity will continue to demonstrate its capacity for functioning as a force for good. 🌱

# DEAL TRACKER



## INFRASTRUCTURE

### Private equity manager

African Infrastructure Investment Fund 3 (AIIF3)

### Target company

Proton Delta Sunrise: a majority interest in a 150MW IPP development in Nigeria and AIIM's second IPP in Nigeria  
Power: Thermal Power Majority  
December 2016

### Industry

### Shareholding taken

### Date

### Comment

AIIM concluded its investment in Proton Delta Sunrise IPP in December 2016. The project consists of a 150MW open cycle gas-fired power project being developed by Proton Energy Ltd in Nigeria. AIIM's understanding of the sector and previous experience with the Azura Edo IPP allowed it to secure a majority stake in the project. With PPA, government support, World Bank support and debt arrangements in advanced stages, Proton is considered to be a leading project in the next wave of Nigerian IPPs under development, following the successful closing of the Azura Edo IPP in 2015 and a strategic asset in the continued development of the Nigerian IPP market.

### Private equity manager

### Target company

South Africa Infrastructure Investment Fund (SAIF)  
Portfolio of South African toll roads: Bakwena Platinum Corridor Concession, N3 Toll Concession and Trans African Concessions Transport (roads)  
Unable to disclose amount, but the sale represents the largest private equity realisation for toll road infrastructure in Africa to date.

### Industry

### Deal value

### Shareholding taken

Disposal of majority and significant minority interests in three South African Toll roads.  
July 2016

### Date

### Comment

AIIM concluded the successful sale of material stakes in the Bakwena Platinum Corridor Concession, N3 Toll Concession and Trans African Concessions toll roads as part of the realisation of SAIF – South Africa's first 20-year infrastructure fund. AIIM managed the toll road portfolio through the asset lifecycle, investing at the construction phase and managing the assets into mature assets delivering strong yields to investors. The exit was concluded through an international auction process, with significant international interest testament to the increasing maturity of the African infrastructure sector and Africa's improving status as an investment destination in the current global environment of increasing competition in developed markets.

# TRANSACTORS TALK



## Marc Immerman

Principal: Lereko Metier Sustainable Capital Fund



*What is the impact and role of private equity funding in renewable energy infrastructure investment across sub-Saharan Africa?*

**MI:** The developmental experience and strategic support of some private equity teams are essential in rendering projects viable – and thus in ensuring access to projects and assets that may not otherwise have seen the light of day. Furthermore, private equity involvement is valuable in improving the underlying project fundamentals, bolstering corporate governance, optimising equity returns and risk profiles, and facilitating the ability to access debt for projects. Another key metric that private equity is instrumental in delivering is that of environmental, social and governance (ESG) factors, which are crucial in ensuring a fair balance for the environment, communities and workers in relation to infrastructure projects.

As an example of the invest-and-manage capabilities of private equity, the Lereko Metier Sustainable Capital Fund Principles initiated the Bokpoort project, which has been operational for almost a year now. This is a R5 billion project that would not have existed without the involvement of the private equity team principals. Similarly, we are about to close our first non-South African deal, Sindila, a micro-hydro plant in Uganda. We have adopted a highly active role in the development of this project, which in the end ensured its feasibility and improved the risk-return profile. These examples from our portfolios illustrate how the tenacity and

innovation inherent in private equity partnerships facilitates the roll-out of infrastructure.

*What is the investment opportunity for private equity?*

**MI:** All aspects of infrastructure offer significant investment opportunities. Energy is arguably the most obvious, with over 600 million people in sub-Saharan Africa having no access to electricity.

Per capita energy consumption in sub-Saharan Africa is vastly lower than for markets in the developed world, and even for some other emerging-market regions. In order for electrification rates to increase across the African continent, significant capital investment is required. Here, private equity will play a very important role.

In particular, similar to the way in which we saw African mobile telephony leapfrogging old landline technology, we anticipate that innovation and cost reductions in distributed-generation renewable energy infrastructure will likely enable the region to catch up in the realm of energy infrastructure.

Private equity is able to generate, manage and ultimately exit these investment opportunities on behalf of institutional investors such as pension funds, to whom the predictable long-term nature of cash flows from infrastructure assets are appealing, but who do not have the teams to identify and manage infrastructure assets, and who may not be in a position to optimise exit processes and investment proceeds. 🍷



# DEAL TRACKER

## INFRASTRUCTURE

<b>Private equity manager</b>	African Infrastructure Investment Fund 3 (AIIF3)
<b>Target company</b>	AIIM Hydroneo: a JV established to develop, finance, build and operate a number of hydroelectric power plants with a focus on West Africa
<b>Industry</b>	Renewable Energy: Hydropower
<b>Shareholding taken</b>	50%
<b>Date</b>	January 2016

### Comment

AIIM Hydroneo – a JV between African Infrastructure Investment Managers (AIIM) and Hydroneo Afrique – is facilitating the development of a pipeline of small and medium run-of-river hydro power plants with a focus on West Africa. These projects are expected to represent a total installed capacity of 200MW with a total investment of approximately \$500 million over the next five years.

AIIM Hydroneo has secured MOUs with the governments of Cameroon, Gabon and Guinea, providing exclusivity to more than 10 hydroelectric power plant project sites supporting an aggregate generation capacity of more than 120MW. The development of hydroelectric power plants paves the way to better serve the growing energy demands and facilitates the long-term economic growth of the region.

<b>Private equity manager</b>	Abraaj Group
<b>Target company</b>	Themis
<b>Industry</b>	Energy
<b>Shareholding taken</b>	100%
<b>Date</b>	March 2016

### Comment

In March 2016, the Abraaj Group ("Abraaj"), a leading investor operating in global growth markets, acquired a dedicated project development company, Themis Energy ("Themis") which will leverage the Group's local teams, global network, execution capabilities and existing infrastructure team to originate, develop and manage energy projects from concept stage to operations.

Abraaj's global strategy is aimed at capturing value throughout the life-cycle of primarily renewable and energy efficiency projects across several sub-sectors and technologies.

Themis is comprised of professionals with strong track record in energy project development and has in excess of 1 300 MW of energy infrastructure projects under development.

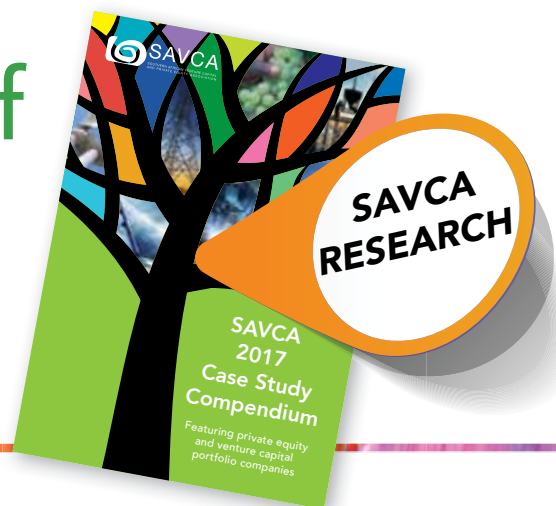
<b>Private equity manager</b>	IDEAS Managed Fund
<b>Target company</b>	Renewables Cookhouse Wind Farm 1: a 139MW wind farm in South Africa and the largest operational wind farm in the country
<b>Industry</b>	Power: Renewable Energy
<b>Shareholding taken</b>	7.5%
<b>Date</b>	December 2016

### Comment

The IDEAS fund increased its holding in the Cookhouse Wind Farm through the secondary market purchase of a 7.5% stake. The Cookhouse Wind farm was concluded as part of Round 1 of the South African REIPPP programme and reached commercial operation in November 2014. AIIM-managed funds hold a majority investment in the project, with AIIM having managed the asset through construction into the stable operations phase. Cookhouse has consistently outperformed availability expectations, generating strong yields for its investors as it enters the mature stage of its lifecycle. The acquisition further strengthens IDEAS' position as a leading investor in the South African renewable energy space.



# A compendium of private equity partnerships



SAVCA this year launches its second compendium of portfolio company case studies, which features the stories woven into the partnerships between private equity fund managers and the businesses in which they invest.

The sixteen case studies represented in the 2017 issue all underscore the long-term nature of these collaborative partnerships and reflect the common goal evident in each instance – that of rendering the portfolio company more resilient, more efficient, with healthier governance structures and with an expanded footprint.

This theme of fruitful partnerships between investor and investee is evident across the broad spectrum of companies to whom we spoke for this research. We interviewed company CEOs from a wide variety of industries, from transport, building materials and facilities management solutions, to real estate, medical supplies, technology and food. These ranged from start-ups receiving early-stage funding, to more established businesses taking on growth equity, as well as more corporatised companies that were involved in leveraged buy-outs with private equity.

the manner in which the capital investment has facilitated operational expansion, whether through increased footprint, upgrading of facilities, or through the introduction of new products and services.

Technology is a recurring theme in the compendium: some companies have introduced systems to manage their operations more efficiently, while others have introduced new technology to the market that offers life-saving health-care solutions or encourages financial inclusion amongst the previously unbanked population.

## A SUPPORTIVE PARTNER IN GOOD AND TOUGH TIMES

Another common thread is private equity's role in helping companies through difficult trading conditions and macro-economic shocks – and it being a supportive partner in good

*"Our research shows how private equity has influenced businesses, the communities connected into these businesses, and the environment."*

## INFLUENCING TO CREATE MEASURABLE BUSINESS IMPROVEMENTS

Our research shows how private equity has influenced businesses, the communities connected into these businesses, and the environment, with the narratives making reference to measurable improvements in corporate governance, job creation, employment equity initiatives, skills programmes, environmental measures and social upliftment.

In one instance, a portfolio company built a cost-efficient waste-water treatment facility that re-uses grey water for irrigation purposes, while another has provided training, material and seeds to local communities who have been empowered to produce the fresh fruit and vegetables needed by the business for catering purposes.

A number of portfolio companies featured in this year's publication report how they have benefited from their private equity partners' strategic input. There is also reference to

and tough times. This reflects the ability of private equity to maintain a long-term investment view and to provide multi-disciplined support to investee companies in uncertain global, regional and local settings.

The impact of private equity and the success of fruitful partnerships is aptly described by Chris Wells, the CEO of a portfolio company featured, who said his business "has been quickly transformed into a customer-focused, efficient and highly competitive business, whilst retaining the entrepreneurial spirit that was a key part of its DNA. This complete transformation of the company was initiated and supported by the private equity investors." 📱

Visit the SAVCA website to download the report electronically, or contact our office for a hardcopy.

## CEOS OF INVESTEE COMPANIES DESCRIBE THEIR EXPERIENCE WITH PRIVATE EQUITY

"Our private equity partner plays a strategic role through its expertise and experience in the corporate and organisational structure of the concession. Our partner informs the project in the areas of traffic engineering and toll road operations, and plays an oversight function in the areas of project finance, hedging, procurement, risk management, corporate governance and social responsibility. It has supported the project in leveraging funding through debt markets and strategic profiling of project cash flows."

– **Graeme Blewitt, CEO: Bakwena Platinum Corridor Concessionaire**

"At Southey, we share a similar entrepreneurial ethos with Metier and have formed a strong partnership. The benefit of an investment by a private equity firm is that, compared with other forms of funding, it introduces hands-on expertise. The right private equity partner helps businesses re-evaluate every aspect of their operations in order to maximise value for all stakeholders."

– **Barry Wickins, CEO: Southey Holdings**

"It is one thing to give money. It is entirely another matter to provide the skills and guidance with governance and financial controls that will enable the company to be structured appropriately in order for it to go to the next level of growth."

– **Avril van der Rheede, Owner and Founder: Eagle Towers SA**

"In addition to bringing in intellectual capital, VPB Namibia has brought in much-needed financial and governance expertise, thus proving its worth as a value adding partner."

– **Dr T lithete, Managing Director: Ongwediva Medipark Hospital**

"The investment ultimately allowed us to reposition ourselves as an essential service provider to our former competitors, while the associated expansion capital proved critical in realising MobiPay's strong revenue growth potential."

– **Claus Deckenbrock, CEO: MobiPay**

"We have benefitted from IDF's professionalism and forward-thinking approach from the moment the firm stepped in and agreed to back us. IDF provides important strategic and business support to Emfuleni."

– **Mochele Noge, CEO: Emfuleni Voerkrale**

"4Di has been a valuable sounding board many times over the years. The team has always been supportive and has helped me make better decisions. It's a relationship I'm truly grateful for."

– **Anli Kotzé, CEO: BetTech Gaming**

"Our equity partner put robust structures and systems in place. Their financial backing allowed us to grow without having to go through the lengthy process of applying for bank financing. Acorn's input has also meant that Grassroots could pursue the right expansion opportunities at the right time. Acorn did not interfere with the DNA of the business, allowing management to operate in a structured but still very entrepreneurial environment."

– **Rikus Muller, CEO: Grassroots Group**

"The private equity consortium has been highly supportive of Tracker in pursuing new growth avenues and has balanced the support with a disciplined focus on resource and capital allocation. This discipline is now well engrained in the business and will serve it well going forward. Actis has played an active role in enhancing the senior management team and I feel privileged to be leading a team of this calibre."

– **Wayne de Nobrega, CEO: Tracker**

"IFS has been quickly transformed into a customer-focused, efficient and highly competitive business whilst still retaining the entrepreneurial spirit that was a key part of its DNA. This complete transformation of the company was initiated and supported by the private equity investors."

– **Chris Wells, CEO: IFS**

"Innovative value creation and connecting the dots through partnerships with our people, customers, suppliers, partners and communities, is what drives Libstar."

– **Andries Van Rensburg, CEO: Libstar**

"Without the patient capital of the IDC that, as a state-owned institution, can extend its investment horizon, Lodox would simply not have survived, despite having an excellent product. The IDC provided both the initial funding and subsequent restructuring of debt and additional capital that have got us to the point where we are today."

– **Pieter de Beer, CEO: Lodox Systems**

"We went through a very tough time in the beginning and I think Ethos Private Equity's support helped the company tremendously. It changed the whole profile of the company."

– **Seaweed McFarlane, CEO: Plumblink**

"We are excited by the African Agriculture Fund's investment into the business as this will help support expansion plans across the group. We believe that, with this funding, Meridian will be well-positioned to meet the increasing demands for fertiliser in sub-Saharan Africa."

– **Andy Watt, Director: Meridian Group**

"With the support of Rockwood, we concluded several strategic acquisitions and significantly increased our footprint throughout Africa and the Middle East. The BEE level 1 accreditation, which Rockwood also supported us with, has afforded us a substantial competitive edge."

– **Royce van der Zwan, Group Marketing Director: Tsebo**

"Our equity investors had the vision to provide long-term funding to an asset class that was, at the time, relatively neglected. They recognised the opportunities for growth in a sector which addresses a national imperative to provide affordable rental accommodation at a substantially reduced cost. They also encouraged UIP to support excellent residential property managers."

– **Ian Mason, Director: UIP**

# SAVCA membership

**Lungile Mdluli** (LM) is chairman of the SAVCA sub-committee which oversees the member application process. She comments on trends in SAVCA's member growth.



*What trends have you seen in the SAVCA membership over the past year?*

**LM:** We continue to see steady growth in our member base, and are pleased by the regularity with which we receive member applications. Our full-member category, which is for private equity and venture capital fund managers, grew by 15 firms in 2016, to 106 members. A further two applications were approved in the first month of 2017. We have 50 firms in the associate-member category, which is for firms providing advisory services to private equity and venture capital. It is likely that the trend of new applications will continue and we will end the year with more than the 108 members that we currently represent.

*Based on the types of managers applying for membership, what can one glean about current trends in the industry?*

**LM:** The pace of expansion in our membership has been gradual and sustainable, reflecting the continued growth momentum in the industry broadly. The established private equity managers who have been members for years report

increased funds under management, as they expand their scope and successfully raise subsequent funds. Applications for new membership have come from a range of managers, including established managers, first-time managers in the process of raising a fund, and balance-sheet investors considering moving to a private equity funding model or who are looking to partner with private equity investors on transactions. A further notable trend is the number of new members who are establishing Section 12J VCCs.

New members represent a range of fund types, from small to large, targeting small, mid-sized and large transactions. There is also a range of sector mandates represented in the group of new members, including generalist mandates, as well as those leaning towards financial services and consumer-related transactions. We note some emphasis on infrastructure and ICT-related investment mandates.

We have welcomed new members from SADC countries outside of South Africa, notably Namibia and Botswana; typically, investment mandates of new members extend across SADC, and many focus on sub-Saharan Africa. 🇿🇦

**SAVCA Membership Trends 2000 – 2017**



# Networking with women



SAVCA is proud of its role in deepening networks amongst professionals in the private equity industry. As an example, the quarterly events hosted for women in private equity have proven to be an effective initiative for information exchange and developing new connections. Industry professionals gave us their views on this initiative.

"I am very excited to see the number of women who turned up for the SAVCA Women in Private Equity event. It shows that this industry has potential to attract more women. But more importantly, I'd like to see the industry keeping women and growing them. May SAVCA's endeavours in bringing women into private equity grow in leaps and bounds." – **Busisiwe Mabuza, Board Chairperson of the Industrial Development Corporation (IDC) and a keynote speaker at SAVCA Women in Private Equity**



"There are still relatively few women in private equity, but I think there are inroads being made and the numbers that are coming through are quite encouraging. It's great to have events such as SAVCA Women in Private Equity, which foster relationships and promote women in private equity as well." – **Lungile Mdluli, Principal, Metier**



"I have met a really good group of women at these events and we have extended these networks to connect outside of the event. It's been very valuable from a work and personal perspective." – **Joni Warburton, CFO of Metier Sustainable Capital Practice: Metier**

"There are too few women in private equity in South Africa and I believe we need to encourage more women to be part of such an exciting space. Women bring a great deal to the table and we need the female dynamic in the private equity deal-making process. It is a matter of encouraging more female participation, which includes making it easier for women to be able to have careers and family lives as well. It's a mind-set shift, requiring people in the industry to be more flexible and open to new ideas." – **Megan Rous, Investment Manager: Pembani Remgro**



"The SAVCA Women in Private Equity networking events are an opportunity to meet other women – professionals – who are working in the industry. It's about building relationships with them, finding out about what they are doing and an opportunity to see how we can collaborate. I've come to understand that private equity is largely about relationships. People work with those with whom they get on and trust. They invest alongside those same people. That is why these events are important." – **Madichaba Nhlumayo, Executive Director, Pan-African Capital Holdings**

"There has to be a commercial case to be made around investing in women-owned entrepreneurial businesses and having women professionals in the industry, for a number of reasons. Women make up more than 40% of entrepreneurs in most economies and more particularly in sub-Saharan Africa. And yet, they get about 10% of private equity capital. What it means is that only 25% of women entrepreneurs obtain private equity capital. From an economic point of view, it means that economies are not able to fully exploit the potential that they have, because there is this section of the market that is completely ignored. Private equity by its nature attracts people with similar networks, so if it is men who dominate the industry, then gender imbalance will prevail. This is because they move within the same environments and the same networks.

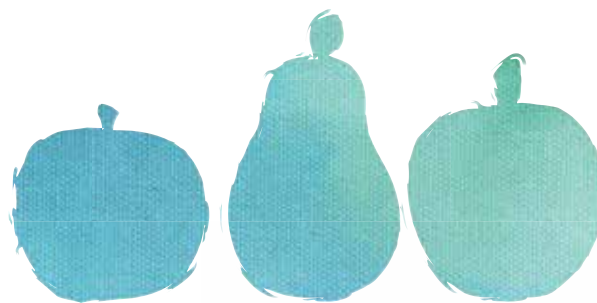
If you start having more professional women and more women-owned private equity firms, who then also interact with networks that are primarily women, we will then be in a more favourable position to start tapping into the women entrepreneurs that actually exist, but for various reasons are not tapped into. There has to be a deliberate effort by both men and women in the sector to find creative ways of making it conducive for women to enter the sector and do what it is they need to do in order for us to unlock the untapped population."

– **Polo Leteka, Executive Director, IDF Capital**





# DEAL TRACKER



## AGRICULTURE AND FOOD

**Private equity manager** Invenfin  
**Target company** De Villiers Chocolate  
**Industry** Food  
**Shareholding taken** 28.3%  
**Date** June 2016

### Comment

DV produces "bean-to-bar" chocolate from cocoa beans sourced directly from cocoa farmers in Africa, a continent that grows 70% of the world's cocoa beans, but produces less than 1% of the world's chocolate.

The company – headed by entrepreneur Pieter de Villiers – operates out of retail and production premises at Spice Route in Paarl. It also operates a production facility at Simondium and a Café in Franschhoek, its newest location. DV's products can also be bought at certain Woolworths stores.

**Private equity manager** African Agriculture Fund (AAF), managed by Phatisa  
**Target company** Kanu Equipment Limited (Kanu)  
**Industry** Pan-African mechanised equipment distributor for agriculture, construction and mining.  
**Deal value** \$16 million  
**Shareholding taken** 40%  
**Date** June 2016

### Comment

Phatisa has invested in Kanu, a pan-African equipment distributor with operations in nine countries.

Kanu specialises in the supply of international equipment brands such as Bell Equipment, Liebherr and Case IH, the distribution of high-quality spare parts and the delivery of reliable repair and maintenance services.

Phatisa was attracted by the opportunity to provide development equity to Kanu as the business has strong growth prospects and a capable and experienced management team. This, supplemented with Phatisa's expertise in agriculture, bring capital and ability to Kanu. We are excited to work together in driving value creation through strategic ambition and building a leading dealer across the African continent.

**Private equity manager** Kleoss Capital through Kleoss Fund 1  
**Target company** Real Foods  
**Industry** Food  
**Date** August 2016

### Comment

Real Foods is a holding company created in 2013 with the intention of consolidating health-focused food producers and retailers in South Africa. The Group aims to become the dominant healthy food and wellness-focused company in South Africa. The Group currently owns the Kauai Group that operates 157 Kauai and five Nu Health stores across five countries.

The medium-term strategy of the Group is to acquire other healthy/natural food manufacturing companies.

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# THE ALTERNATIVE ADVANTAGE

For 32 years, Ethos has an unparalleled track record of sustainable, superior investment returns.

Specialising in private equity and credit investments, Ethos was instrumental in establishing the asset class in the sub-Saharan region, with a particular focus on the South African market.

The firm's unique understanding of these regions sets it apart as a reliable and committed partner in successful investment across economic and political cycles.

**ETHOS**