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The private equity backed JSE listings pipeline is showing good signs of recovery

# POSITIVE SENTIMENTS



PHOTOGRAPHY GARETH VAN NELSON/HSMimages

**G**iven the continued improvement in the global economy and high and rising market sentiment, the initial public offering (IPO) market may be on the verge of reopening after a period ➔

of sluggishness. Patrycja Kula, the JSE's Business Development Manager, Issuer and Investor Relations, says private equity (PE) firms have waited patiently since the Great Recession in 2008, continuing to operate and improve their portfolio companies until the time that exit conditions become optimal.

'The strength of the market is encouraging more companies and PE owners to re-evaluate and accelerate their plans to go public, and the JSE is constantly engaging with the PE industry about possible listings,' she says.

Kula points out that the holding period for PE differs. 'It takes three to almost six years for PE to exit, while IPOs are again becoming a possible exit strategy for many PE investors. African capital markets are still relatively underdeveloped, and the JSE could facilitate growth in those economies as well as on the JSE by facilitating PE-backed listings. The JSE is Africa's largest and most liquid market and offers a viable exit platform. Funds and investors can realise the returns on their investments at the fund's maturity stage.

'For these companies there is a relatively smooth transition from the unlisted into the listed environment as these private businesses are used to reporting to their PE investors and are corporatised. Listing gives them the opportunity to attract a new spread of shareholders and these investors now have the opportunity to take part in the companies' next growth phase.

'The spread is important because it means that you are not solely responsible for, and controlled by, one major shareholder. The listed environment also provides the opportunity to use your shares as currency for acquisitions, a transaction that might be difficult in an unlisted environment due to liquidity constraints, lack of funding or unfavourable valuation, which is not often market driven.'

Kula says the company needs to conduct a realistic assessment of its management, resources, stage of development, funding requirements, long-term strategy and goals and future prospects when making a decision to list. It is also important to note the activity and liquidity of the stock market and the reporting and legal environment for the company's owners and PE firms.

'The JSE has two markets on which a company can list, namely the Main Board and the AltX. Both boards offer benefits such as profiling,



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peer benchmarking, indexation exposure locally and globally and capital-raising opportunities. Ultimately they enable companies to use the franchise of the JSE to take their business to the next level by allowing equity or debt investment.'

The JSE's most recent PE exit through listing was Ascendis, which listed in December 2013 and raised

R453 million through private placements.

Other recent exits by way of a PE-backed listing on the JSE include Transaction Capital, Holdspport, Life Healthcare and Kelly Group, which raised R600 million, R809 million, R6 billion and R347 million respectively through private placements. ■