SAVCA
SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

SAVCA CASE STUDY COMPENDIUM

INVESTING FOR GROWTH, INVESTING FOR GOOD

EBS
RISK | STRATEGY | COMMUNICATIONS

AGRICULTURE AND FOOD

INFRASTRUCTURE

MANUFACTURING

RETAIL AND SERVICES

This report was produced in partnership with EBS Advisory, an environmental and sustainability provider to business and industry. We are committed to enhancing profitability through proactive environmental and social risk management. EBS focuses specifically on investors into Africa. We believe ESG change will only be achieved when it impacts positively on the bottom line. This report demonstrates how SAVCA members have implemented responsible investment practices while increasing profitability.

EBS
RISK | STRATEGY | COMMUNICATIONS

Message from the CEO

It is appropriate that we launch the first SAVCA Case Study Compendium at this year's SAVCA Private Equity Conference, entitled "Investing for Growth, Investing for Good". As the tagline suggests, the conference showcases how private equity funding gives investors valuable exposure to African growth in a way that ensures they have a positive developmental impact on the continent. Each case study is a tangible example of the enhancing role that private equity has in the development of companies, industries and economies, and of its performance in driving environmental, social and governance (ESG) best practice.

Ranging from small minority stakes to large majority shareholdings, the investment stories in this publication showcase a diversity of businesses from food and agriculture, to telecommunications, affordable housing, auto components, energy, chemicals, medical, education, marine and industrial products.

These stories reflect how, with the expertise and financial support of private equity investors, businesses expand into new products and wider geographies. Production facilities are overhauled to meet international standards. Quality certification of products raises credibility and facilitates expansion into new markets. Companies are able to tender for large public sector contracts and enhance their capacity for delivery. With additional funding, some have even been able to grow through acquisitions. Many have attracted further finance from investors who would not have considered the portfolio company to be a creditworthy operation prior to the introduction of the private equity partner.

In addition to supporting growth in the revenue streams of portfolio companies, private equity prompts these businesses to look at their cost structures. Processes become more efficient and working capital is more tightly managed. Information technology and systems are reworked so that customers are better serviced and turnaround times are improved. In essence, these businesses become better businesses for the benefit of management, employees, customers and investors.

A central focus for private equity investors is to raise corporate governance standards and sharpen strategic thinking in the boardroom. This is shown in our case studies, with examples of how portfolio companies are able to become compliant with King III, as well as industry-specific codes and principles, and move to a professional level of financial reporting.

Importantly, these case studies show that the benefits of a private equity partner extend far beyond the income statement. Investors prioritise the skills development, education and training of employees in their portfolio companies. They motivate and reward staff through empowerment shareholding schemes and profit incentives, and some report notably improved wage and salary packages for employees. We show examples of private equity investors implementing on-site training facilities and offering bursary schemes to existing and potential employees. In some instances, training is even extended to beneficiaries outside of the business, for example to suppliers in the value chain of that company.

Private equity investors also work towards ensuring that the benefits of a healthier, well-run business are more widespread. Many incorporate local communities, for instance by procuring from local previously disadvantaged businesses wherever possible and including rural communities and informal traders in their operations. They contribute to improved infrastructure, develop renewable energy projects, facilitate communications and connectivity, and address housing shortages, food security and rural health issues.

Each of the case studies included in this compendium is an encouraging example of how smart investing can have far-reaching and meaningful influence. The SAVCA team has enjoyed working on this project and sharing our members' experiences and lessons learnt. We would like to thank James Brice and the team at EBS Advisory whose professional and cheerful work has made this first compilation a success. We are confident that the 2015 SAVCA Case Study Compendium will have a long life in communicating the transformational impact that private equity investment has on our continent.

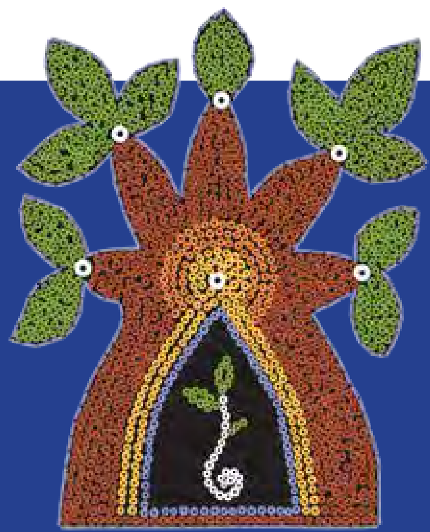
E vd Merwe

SAVCA is grateful for the generous support received from our members who provided the relevant inputs contained and evaluated in this report.

Medu Capital
Ethos Private Equity
Convergence Partners
Old Mutual Investment Group
musacapital
metier
Inspired Evolution Investment Management
Horizon Equity
Phatisa
Harith
Vantage Capital
Acorn Private Equity (Pty) Ltd
The Abraaj Group
agriVie Africa Investment Fund - Food & Agribusiness
Leaf Capital
edge Growth

savca case study compendium

Investing for growth, investing for good



AGRICULTURE AND FOOD

Grassroots Group Holdings
HIK Abalone Farm
Goldenlay
African Frontier Holdings

grassrootsgroup

KEY FACTS

Company: Grassroots Group Holdings
Investor: Acorn Private Equity
Sector: Food production
Type of investment: Growth and capital expansion
Revenue growth: 76% (Sep 2014)
Employees: 500

INVESTMENT IMPACT HIGHLIGHTS

- Construction of new production facilities in line with international quality standards
- Measures and systems introduced to increase staff loyalty and efficiency
- Inputs at board and Exco level designed to align strategic vision and values
- Introduction of an in-house wastewater treatment facility


Grassroots manufacturing plant

Located on a farm near Gouda in the Western Cape, Grassroots Group Holdings (Grassroots) started as a family business in 1992, producing niche natural health and lifestyle food products and snacks, including natural preservative- and sugar-free health food products, which are exported mainly to European and UK markets.

Grassroots required funding for the construction of a production facility to process and package products in line with international and local consumer requirements and quality standards. The new facility was built to double the company's capacity to produce its premier products, which are manufactured from a fruit pulp base. Since the initial investment, Grassroots has expanded its facilities twice and is looking to expand again to meet growing demand.

The company as an investment opportunity

Acorn Private Equity (Acorn) recognised the value of the long-lasting and strategic relationships Grassroots had developed with its customers, key suppliers and employees since its inception in 1992. In addition, Acorn saw the potential for Grassroots to establish a stronger foothold in Europe and further afield. Acorn's investment philosophy was aligned with Grassroots' approach to running a profitable business while making a significant contribution to the communities within which it operates.

The role of private equity

Equipment and facilities upgraded to international standards

Acorn's investment allowed Grassroots to build two new facilities that comply with international standards, namely the Hazard Analysis Critical Control Point (HACCP) food safety standards and the widely accepted British Retail Consortium (BRC) standards. The company aims to be fully BRC certified by the end of 2015. The focus on quality certification has enabled Grassroots to expand its existing customer base into sophisticated European and American markets.

Operations optimised

Acorn played an active role in assisting Grassroots in restructuring its management team and appointing a new CEO. An Acorn analyst was initially placed on site to oversee the revision and implementation of the company strategy. The operating structure was changed to incorporate monthly board meetings as opposed to quarterly meetings and facilitate a more hands-on approach.

Wastewater treatment facility developed

Water consumption is a significant operating risk for Grassroots, given its location in a water-scarce region of South Africa. The investment made it possible for Grassroots to develop an in-house wastewater treatment facility and aeration system. The new system is significantly more cost-effective than local systems and has reduced Grassroots' water usage and improved the quality of its irrigation water.

Active involvement in local community

Grassroots is a primary employer in Gouda and Saron, two rural towns in the Western Cape where jobs are in short supply. As 90% of its workforce is made up of women, who do not have easy access to transport, Grassroots supplies transport to and from work. This has ensured the safety of female employees and decreased absenteeism. The investment by Acorn has allowed Grassroots to support crèches in both towns for employees' children and help families buy and build their own homes. It also commenced phase one of a joint initiative with the Goedgedacht Trust to create a Path out of Poverty (POP) centre aimed at uplifting the local community. These initiatives created loyalty amongst the workforce and empowered female employees.


Dried pears

ACORN PRIVATE EQUITY (PTY) LTD

"The investment helped us bring agro-processing back to local communities in the Cape farmlands."

Conclusion

To accommodate the rapid growth over the last four years since Acorn's investment, Grassroots has expanded its factory twice to meet higher demand for its dried fruit products. Management is cognisant of its heightened responsibility to its employees, given the impoverished environment in which the business operates. The investment has helped create 400 additional jobs and supported the development of a food processing supply chain in a rural area of the Cape.

HIK·ABALONE·FARM

KEY FACTS

Company: HIK Abalone Farm
Investor: Agri-Vie
Sector: Aquaculture
Type of investment: Expansion
Investment amount: R41.5m
PE shareholding: 45%
Revenue: R60m (Feb 2014)
Revenue growth: 53%
Employees: 137

INVESTMENT IMPACT HIGHLIGHTS

- IFC resource efficiency audit funded through Agri-Vie's Technical Assistance Facility (TAF) has assisted with a reduction in operating costs
- Combating demand for wild abalone, which is facing extinction in South Africa
- Developing skills within the organisation to maintain the company's position as a market leader

Workers in weaning


Abalone sorting

HIK Abalone Farm (HIK Abalone) is an aquaculture operation, which was established in Hermanus in 1997 with the construction of its first grow-out platform. A hatchery followed in 2002 that helped the operation become self-sufficient and today HIK exports about 160 tons of abalone per annum. This growth has been facilitated through investment by Agri-Vie, whose objectives of generating above-average investment returns while addressing development impact challenges were in line with the company's philosophy of promoting sustainability and social upliftment.

The company as an investment opportunity

In South Africa, abalone production from aquaculture facilities has increased from zero in the 1990s to an estimated 1 200 tons per annum today, making South Africa one the largest producers of abalone outside of Asia. Demand has been driven by the growth of East Asian economies and a rising middle class in this region. Most farms are expanding production and the industry is set to grow to at least 5 000 tons over the next 10 years. Agri-Vie identified HIK Abalone as well placed to capitalise on this growing demand.

The role of private equity

Providing a sustainable source of Abalone

Abalone farming in South Africa is playing an increasingly important role in the protection of the abalone species. Since the late 1990s abalone poaching has become a highly organised, multi-million dollar illicit industry, controlled by street gangs on the shoreline and transnational criminal enterprises on the trade routes to East Asia. As a result, abalone is on the brink of extinction on South Africa's shorelines. HIK Abalone is helping to combat the demand for wild abalone by providing East Asian markets with farmed abalone that exceeds the quality and taste of wild abalone.

IFC energy efficiency audit

Electricity is one of HIK Abalone's greatest expenses. Agri-Vie, which has two seats on the board, helped make energy efficiency a core focus area for the abalone producer. Energy use at the facilities is now recorded in detail and internal audits are conducted routinely to help improve efficiencies. HIK Abalone recently participated in a Resource Efficiency Audit conducted by the IFC and funded through Agri-Vie's TAF. The aquaculture operation is currently implementing recommendations made following the audit, which include upgrading the water pumping system, improving fan and blower efficiency and installing a solar water heating system, which uses roof-top photovoltaic panels.

Skills development

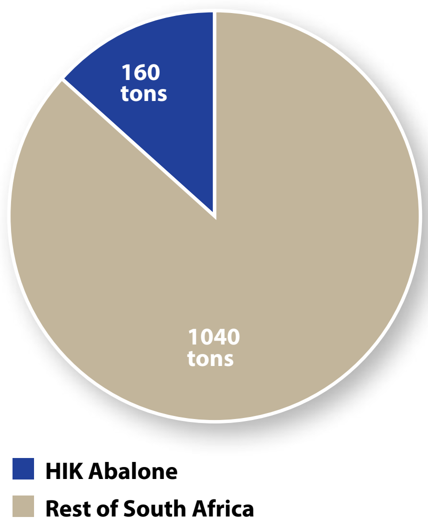
HIK Abalone recognises the importance of developing its employees' skills in an industry that is constantly evolving. To this end, it provides aquaculture-focused skills training for employees and sends its technical team members abroad to remain abreast of industry trends. In addition, the organisation has introduced an Adult Education and Training (AET) programme on-site where employees can take one to two hours out of each working day to complete credits towards a matric qualification (high school diploma) in various learning areas. This focus on staff development has helped HIK Abalone nurture a more effective workforce and remain at the forefront of abalone farming in South Africa.

Conclusion

HIK Abalone has become a leading player in South Africa's aquaculture sector as a result of its highly skilled workforce and superior product. Agri-Vie identified energy efficiency as a key area for saving costs and as a result commissioned an IFC energy efficiency audit. This has allowed HIK Abalone to maintain overhead costs as South Africa's electricity prices increase above inflation, which has in turn helped ensure its price competitiveness. By delivering high-quality abalone to East Asian markets, HIK Abalone is contributing to changed perceptions about farmed abalone.

agriVie
AFRICA INVESTMENT FUND - FOOD & AGRIBUSINESS

Abalone production in South Africa



Weaning system

Fresher . Bigger . Better

Goldenlay

KEY FACTS

Company: Goldenlay
Investor: Phatisa
Sector: Agriculture and Food
Type of investment: Expansion
PE shareholding: 70%
Revenue: $15.9m (2012)
Revenue growth: 20% (2007-2012)
Employees: 202

INVESTMENT IMPACT HIGHLIGHTS

- Developed world-class facilities to enable an increase in output
- Through its seats on the board, Phatisa guided Goldenlay's strategy to unlock new markets
- Provision of affordable source of protein for northern Zambia and the Lubumbashi region of DRC

View the Goldenlay case study here

"Development equity is the perfect place for DFIs, who want to invest in a way that generates traditional private equity financial returns and sustainably uplifts communities," Duncan Owen, senior managing partner of Phatisa.

Distributing product to the local informal markets

Goldenlay is the largest producer, supplier and distributor of table eggs in northern Zambia. It currently supplies the surrounding regions as well as Lubumbashi, the DRC's mining hub. Established by the existing management team in 2005, the company grew into a profitable and efficient operation in the region with the assistance of private equity investors. When Phatisa invested in the company via its African Agriculture Fund (AAF) in 2012, Goldenlay was poised for its next stage of growth.

Today, state of the art production facilities at Goldenlay comprise two rearing houses, which accommodate 80 000 growing chickens; environmentally controlled layer houses, with more than 67 000 layer hens; and open-shed production units. The company currently produces four million trays of eggs annually. This amounts to 120 million eggs per year or 330 000 eggs per day. Goldenlay aims to increase production to five million trays per annum or 416 000 eggs per day by 2016.

The company as an investment opportunity

Eggs are the cheapest source of high quality protein per gram in Zambia, but the country is a net importer of eggs and chickens. This might be unexpected, given that poultry is kept on almost every smallholding. This gap is simply a matter of demand outstripping supply and translates into enormous potential for commercial investment in the egg production industry.

The role of private equity

Strategic guidance

As a result of its investment in Goldenlay, Phatisa holds the majority of seats on the board and provides strategic guidance on expanding egg production and tapping into currently unserved sectors of the domestic and regional market. In addition, Phatisa has focused the company's effort on securing its raw material through developing its own arable farms and upgrading its feed milling facilities to increase its production capacity. Through this vertical integration, Goldenlay has minimised its risk to exterior market forces.

Moving towards self-sufficiency

Goldenlay currently produces its own specialised feed for each stage of the laying hens' development, further reducing its exposure to external market forces. Maize and soya are grown on approximately 660 hectares of farmland owned by the company. Goldenlay plans to further develop another 1 500 hectares of farmland over the course of Phatisa's investment. The raw materials are blended at an onsite feed mill to produce the different feeds required by the growing and laying flocks. Furthermore, Goldenlay supplements its income by selling waste products such as chicken manure, soya oil and spent hens. In a bid to formalise the sales of its waste by-products, management is currently investigating ways to transform chicken manure into pelletised bio-enriched fertiliser.

Introducing sustainable practices

In line with Phatisa's commitment to sustainable practices, Goldenlay was required to integrate environmental and social best practices into its operations. In this respect, it has committed itself to compliance with the IFC performance standards for poultry production.

Goldenlay used part of the investment to improve operational performance, including installing a full-service onsite incinerator, which resulted in the reduction of toxic emissions into the environment. New effluent treatment tanks were constructed to treat waste water from the chicken houses. Those remove enzymes that have high chemical oxygen demand (COD) and biological oxygen demand (BOD) values prior to the waste water being discharged to the environment.

At the time of investment, it was established that dust emissions posed a threat to the workforce. On Phatisa's advice, dust monitoring was instituted at the Goldenlay milling complex. Through increased ventilation and a newly established dust monitoring system, Goldenlay was able to create a better working environment for its workers.

PHATISA

Getting the stamp of approval

Conclusion

Since investment by Phatisa, Goldenlay's operations have expanded rapidly to increase production and incorporate sustainable business practices. Due to Phatisa's involvement in strategic management, Goldenlay has introduced policies and systems that have brought it in line with international best practices. In addition, its improved biosecurity measures have reduced the risk of disease amongst its flocks and increased production levels.

AFRICAN FRONTIER
HOLDINGS

KEY FACTS

Company: African Frontier Holdings
Investor: Musa Kubu Fund (Musa Capital)
Sector: FMCG / Agriculture
Type of investment: Growth and expansion
Revenue: R982m (Feb 2014)
Employees: 1 355
EBITDA growth: 46.3% (five-year CAGR to 2014)

INVESTMENT IMPACT HIGHLIGHTS

- Backward integration into farming production to develop emerging black famers in economically depressed parts of KwaZulu-Natal and the Eastern Cape
- Skills and capacity development of young, aspiring farmers, who can graduate and work on government farms or run their own operations
- Inclusion of rural farming communities and informal traders into commercial FMCG supply chains
- Supply of fruit and vegetables to government feeding schemes and commercial market places

African Frontier Holdings (AFH) is an integrated FMCG group focused on the food industry with investments in farming, processing, manufacturing, distribution, logistics and retail. AFH has two principle distribution channels, African Dynamics, one of the largest providers of food to government school-feeding programmes in South Africa, and Greenleaf, a food processing and distribution business, which supplies approximately 80 Spar retail outlets in KwaZulu-Natal (KZN) and the Eastern Cape with fresh produce. It operates a 800ha vegetable and maize producing farm, as well as nine Spar outlets focused on rural lower to mid-income consumer groups.

Musa Capital (Musa) acquired a stake in AFH in 2008 to assist the company's management team in expanding the business and developing it into an integrated and highly scalable vertical value chain incorporating farm production, food manufacturing and distribution, fruit and vegetable processing and packing, and a retail component.

The company as an investment opportunity

Musa has played a pivotal role in the development of AFH's value chain and scalable business model. AFH has a strong entrepreneurial management team and a proven track record in growing shareholder value. In addition, it has made a significant ESG impact in the communities it operates in. This has been achieved by creating economic opportunities in depressed rural areas and creating a sustainable supply chain for emerging black farmers and agricultural producers.

musacapital
transacting change, transacting the future

The role of private equity

Emerging farmer programme initiated

Over the past two decades, South Africa has witnessed an erosion of its commercial farming skills base. This is largely due to the retirement of many skilled commercial farmers from the industry and a lack of access to resources amongst emerging farmers. With support from Musa, AFH identified an opportunity to address the skills shortage and prove that government and private equity partnerships can deliver sustainable solutions to meet the challenge. This led to the establishment of an Emerging Farmers Programme to provide internships for 50 aspiring black farmers. The programme, which incorporates a cooperative model, was initially established on an 800ha farm that produces a variety of dryland and irrigated crops. Each aspiring farmer enrolled on the programme receives practical on-the-job and classroom training with a focus on business management, financial management and personal development over a three-year period. During this time, new co-operatives are developed by the farmers and phased into independent farming units.

Empowering farmers and traders

On completion of the Emerging Farmers Programme, successful co-operatives will be provided with access to land (through government beneficiary programmes), finance for their inputs, ongoing farm management support and a guaranteed off-take for their produce. AFH is in the initial phases of developing food processing operations, such as canning, juicing and processing plants, which will source produce from these co-operatives.

In addition, AFH intends to incorporate SMMEs and informal traders into its supply chain, thereby creating a secondary market for produce and ensuring the small businesses and traders have an ongoing source of produce.

Supplying feeding programmes

African Dynamics provides food to approximately 1.1 million children on a daily basis through government funded school-feeding programmes, aimed at improving their nutrition and enhancing their ability to learn. The food is partly sourced from AFH's own farm in KZN and will ultimately provide a ready market for the Emerging Farmers Programme cooperatives.

Regional programme impact

Conclusion

Musa has a history of engaging with government to help drive the success of its programmes. By incorporating emerging farmers, informal traders and community farming initiatives into the commercial supply chains, Musa and AFH are promoting fair trade and socio-economic sustainability. Currently in its pilot phase, the Emerging Farmers Programme could become a viable model towards addressing some of the real challenges faced by South Africa's agriculture industry and promoting sustainable transformation. By developing agricultural capacity and enabling strong and viable value chains, the programme ensures both aspiring farmers and their farms are profitable, suitably scaled and adequately capacitated.

INFRASTRUCTURE

South Point Management Services
Southey Holdings
Dark Fibre Africa
FibreCo Telecommunications
Redcap
Affordable Housing Company

"Our partnership with Metier allowed us to forge strong ties with institutions and people, who helped make a difference to students' lifestyles and created a sense of community."

KEY FACTS

Company: South Point Management Services
Investor: Lereko Metier Capital Growth Fund
Sector: Student accommodation
Type of investment: Growth and expansion
Enterprise value: ~R1.7bn
PE shareholding: 80%
Revenue: ~R325m (Feb 2014)
Employees: 370
EBITDA: ~R125m

INVESTMENT IMPACT HIGHLIGHTS

- Provide high-quality value-added student accommodation at affordable prices in support of the national policy of universal access to higher education
- Rejuvenate inner city precincts in Johannesburg, Durban and Port Elizabeth
- Reduce energy utilisation and costs through the implementation of energy efficiency projects within the property portfolio

South Point Management Services (South Point) was established in 2003 to redevelop and manage underutilised inner-city properties to provide affordable, quality accommodation for undergraduate and graduate students. Since Lereko Metier Capital Growth Fund's (Metier) investment in 2007, South Point's property portfolio has grown from six buildings to 40. These currently house approximately 10 000 students in Johannesburg, Pretoria, Cape Town, Durban and Port Elizabeth.

The company as an investment opportunity

Prior to investment by Metier, the business founders had converted six buildings into student accommodation. Metier believed inner-city rejuvenation initiatives and favourable property prices presented a window of opportunity to expand the South Point model further. In addition, the market demand for student accommodation was undersupplied, with universities more likely to deploy capital towards building facilities than residences. There were no major competitors in the student accommodation space, which meant South Point could become the dominant player and build brand affinity for its high-quality, well-run and affordable offering.

The role of private equity

Strategic input

Metier provided strategic guidance on expanding the South Point portfolio and assisted in analysing the various buildings under consideration for acquisition. A Metier team member was appointed as COO at South Point in June 2012. In addition, Metier encouraged South Point to build brand affinity by implementing a sales and marketing plan. Metier helped drive cost initiatives and foster good relationships with universities and the government's National Student Financial Aid Scheme (NSFAS).

Promoting inner-city rejuvenation

The reviving of underutilised and derelict buildings by South Point supports the government's Social Housing Programme, which is aimed at providing residential opportunities for low- and moderate-income households and improving access to city socio-economic resources. Twenty-four of South Point's 40 buildings are located in Braamfontein, close to two of Johannesburg's largest universities and several bespoke colleges. The remaining 16 buildings are evenly spread throughout Durban, Cape Town, Pretoria and Port Elizabeth. The footfall (retail) levels of many of the buildings are occupied by businesses such as the Richard Branson School of Entrepreneurship; Puma stores; L'Oreal Academy and the World Wildlife Foundation, further helping to support the drive for inner-city renewal.

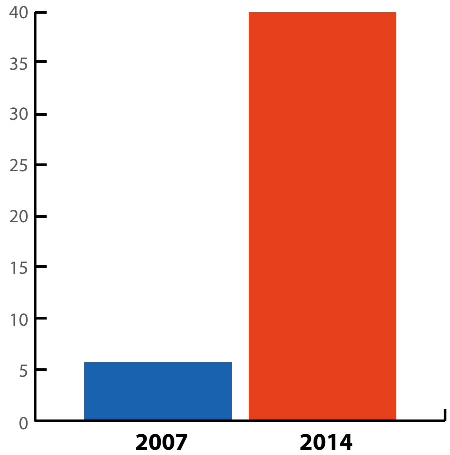
Providing affordable accommodation for students

Providing accommodation for students helps address the shortage of student housing in South Africa's largest cities and supports government's national policy of universal access to higher education. While many of South Point's customers are individual tenants, some universities lease entire buildings for predetermined lease periods, thereby ensuring long-term annuity flows. By providing housing for students, South Point is helping universities free up capital that can be better invested elsewhere. To enhance its offering, South Point offers value-added services to students occupying its buildings, including mentorship and academic support programmes, a shuttle service where accommodation is not within walking distance of campus, and access control using biometric technology to ensure their safety. South Point's students also participate in the sporting and cultural competitions held between on-campus residences, further integrating them into university student life.

Energy efficient buildings

Metier led an energy efficiency programme at South Point, enlisting the services of specialised external consultants. In a pilot project, heat pumps were installed in a building in Braamfontein in 2013, which has resulted in electricity savings of more than 20%. A development plan to roll the

Buildings acquired



programme out to the remainder of the buildings in the portfolio is in place, with additional installations already complete in Johannesburg and Pretoria.

Conclusion

Over the past three years, South Point's portfolio has achieved close to a 95% occupancy rate and the levels of student bad debts (an initial investment risk for Metier) have been less than 0.5%. Following the investment by Metier, South Point has positioned itself to become the largest provider of private student accommodation in South Africa. In addition, South Point's BBBEE rating has improved from Level 6 to Level 3. Future plans for South Point include redeveloping already purchased buildings, with a pipeline of 2 200 beds, acquiring additional brownfield buildings for redevelopment and continuing to act as a leading contributor in addressing one of the key impediments to tertiary education.

SOUTHEY HOLDINGS
INVESTORS IN EXCELLENCE

KEY FACTS

Company: Southey Holdings
Investor: The Abraaj Group
Sector: Industrials
Type of investment: Expansion
PE shareholding: 49.4%
Revenue: $221.6 m (2012)
Employees: 3 226 (2012)
EBITDA growth: 12.4% (2012)

INVESTMENT IMPACT HIGHLIGHTS

- Expansion of the company into target markets in Africa has helped improve the reliability of shipping services on the continent
- Development of innovative products has driven growth into Africa
- A staff shareholding scheme has encouraged greater participation


Workers in weaning

Southey Holdings (Southey), which offers a broad range of services and products to the marine and oil industries, was able to expand its offerings to a larger base of African countries following an investment by The Abraaj Group (Abraaj), a leading investor in global growth markets. The company's oil rigs repair and maintenance (R&M) services at Durban, Cape Town, Walvis Bay and Saldanha Bay are complemented by R&M services for ships through an innovative "shipyard in a box" service in some regions of Africa.

The company as an investment opportunity

Abraaj regarded Southey as a promising investment opportunity based on the scope of its expanding business model as well as its experienced and capable management team, good corporate governance and strong cash flows and margins. Expansion to other African countries (Angola, Namibia, Mozambique, Ghana, Oman, Tanzania, and Gabon) was a key part of Southey's growth strategy.

The role of private equity

Evolving company strategy

Soon after the investment was finalised, a global recession led to a decline in marine transportation and ship-owners postponing non-urgent maintenance or overhauls. This had an adverse effect on Southey's business, which subsequently required the assistance of Abraaj to build a robust and innovative strategy focused on expansion into new growth markets in Africa which services the East Coast oil and gas industry in Tanzania and Mozambique, the West Coast oil industry, the copper industry in Zambia

and Democratic Republic of Congo (DRC), as well as establishing itself in the Middle East (Oman) in 2009. A strategic overview conducted by Abraaj saw the development of new service offerings such as the "shipyard in a box" service, a mobile shipyard maintenance facility aimed at servicing the increased maritime traffic on a long stretch of the West African coastline, and renewed focus on the oil and gas sector. The "shipyard in a box" comprises mobile modular maintenance and repair workshop blocks that allow mobile shipyards to be operational 24 hours a day. With the additional services, Southey began receiving larger orders of approximately $15m per order. The system also helped reduce lost time for shipping companies, which had been sending vessels to South Asia or Europe for repairs.

New markets

At the time of investment, Southey had limited presence in markets beyond South Africa. Abraaj assisted the company in optimising its governance structures and balance sheet and expanding its South African, DRC and Zambian operations into Oman, Mauritius, Angola, Botswana, Gabon, Ghana and Tanzania. This resulted in revenue from countries outside of South Africa growing by 47% over the investment period.

Environmental, Social and Governance engagement

Southey recognises the importance of good corporate governance and strives to adopt the relevant principles laid out in the King III report on good governance. Abraaj was keen to uphold and improve these standards through the creation of an audit and remuneration committee to monitor the performance of each business unit and facilitate reporting for external auditors. Abraaj also encouraged Southey to move beyond compliance and assume a leadership position in the sector by being proactive and diligent in embedding ESG into the business' operations. A full-time HSE manager reports to the Chief Executive and full auditing and training are carried out across all of Southey's various units to ensure international norms are not only met, but exceeded.

Staff share incentive scheme

During the investment period, Abraaj and Southey developed an integrated approach to encourage the meaningful and sustained participation of previously disadvantaged people at all levels of the Group's operations. Abraaj provided guidance on the introduction of an employee share participation scheme, which is weighted towards previously disadvantaged individuals, but open to all Southey employees. By allowing employees to share in the profits of the business, Southey has successfully aligned the interests of senior management and employees. When Abraaj exited, Southey was 31.94% black owned, higher than the target of 30% set by the South African construction charter.

Conclusion

By 2013, when Abraaj exited, Southey was one of South Africa's largest industrial painting, blast cleaning and contracting providers, as well as the country's leading ship and oil rig repair company. This growth can be attributed to the close alignment between Abraaj and the senior management team led by Chief Executive Barry Wickins, as well as a shared goal to achieve sustainable expansion of the business in new markets beyond South Africa.

FIBRECO telecommunications

KEY FACTS

Company: FibreCo Telecommunications
Investor: Convergence Partners
Sector: Telecommunications
Total project cost to date: $67.5m for phase 1 (completed and operational)
Anticipated project costs: $240m for phase 2 and 3
Type of investment: Start-up
PE shareholding: Effective 33%
Employees: 25

INVESTMENT IMPACT HIGHLIGHTS

- Increasing broadband connectivity in South Africa and reducing prices by 50%, thereby helping to stimulate the economy
- The open-access fibre optic network being rolled out by FibreCo is the most efficient way to deploy fibre as it circumvents the need to duplicate infrastructure
- Convergence Partners has brought relationship capital to FibreCo, including co-investors, partners and financial institutions enabling the company to access affordable debt financing

"With Convergence Partners on the board, we don't merely have shareholder discussions. We have board conversations and make strategic decisions based on their extensive experience in the field."

FibreCo Telecommunications (FibreCo) provides city to city long-haul, carrier neutral (open-access), fibre optic cable networks in South Africa. Convergence Partners developed FibreCo with a view to lowering broadband tariffs in the country, increasing speeds and making broadband more accessible. The investment was part of a joint venture (JV) with Cell C and Internet Solutions.

FibreCo currently operates a fibre optic network, which spans more than 2 400 kms, including South Africa's highest traffic route between Johannesburg and Cape Town. The company owns the fibre optic network between Johannesburg and East London, as well as connecting several smaller towns along this route. FibreCo's aim is to extend its footprint of fibre in South Africa to over 5 000 kms in the next two years.

The company as an investment opportunity

Convergence Partners identified the need to provide a long-haul, open access fibre optic network between South Africa's major economic centres to enable the country to fully realise the economic benefits of broadband internet. The creation of FibreCo was also prompted by the connection of the SEACOM cable to South Africa, a network of submarine and terrestrial high speed, fibre optic cables that links the East and West coasts of Africa with Europe and now South Africa. Prior to investment, a bottleneck existed between the East and West Coast sub-sea cables and major inland cities existed, which FibreCo's network has now helped to alleviate. Convergence Partners founded the company in 2009 based on an outsourcing model, that has proven successful overseas. FibreCo became a seed asset for the Convergence Partners Communications Infrastructure Fund established in October 2013. FibreCo plays a key project management role and outsources the construction and maintenance work to contractors. This helps lower the cost of construction and maintenance and spreads the socio-economic benefits down the supply chain to local businesses.

The role of private equity

Rapid deployment of a nationwide long-haul fibre network

The effect of broadband on modern society has been profound. Broadband enables instant communication anywhere at any time by mobilising the rapid transfer of information and services around the world. Despite the benefits of broadband penetration, South Africa lags behind countries with a similar level of development such as the Czech Republic, Poland, Hungary and Turkey. Furthermore, South Africa has fallen into fourth place in internet penetration in Africa, which is out of line with its position as one of the continent's largest economies. Convergence Partners identified the open-access fibre optic network model as the optimal way to deploy fibre in South Africa. The open-access model means that all ISPs can lease bandwidth on FibreCo's network for a fee. This circumvents the need for ISPs to build their own costly infrastructure along major fibre-routes and ensures FibreCo a ready customer base. The extensive network built by FibreCo has helped improve broadband coverage in South Africa, bringing it in line with its global peers.

Securing financing

Developing a 5 000 km fibre optic network throughout South Africa is a capital intensive process, which requires large upfront payments to employ contractors, conduct environmental and social impact studies and acquire licensing fees, amongst others. Convergence Partners played a significant role, in partnership with FibreCo, in raising the relevant equity capital from the JV Partners. Despite FibreCo's size, the company was able to secure vendor financing on favourable terms from ZTE, its main contractor. The financing has in part enabled FibreCo to expand its network of fibre at four times the rate of its South African peers. This has resulted in FibreCo becoming the largest supplier of long-haul open-access fibre optics in the country.

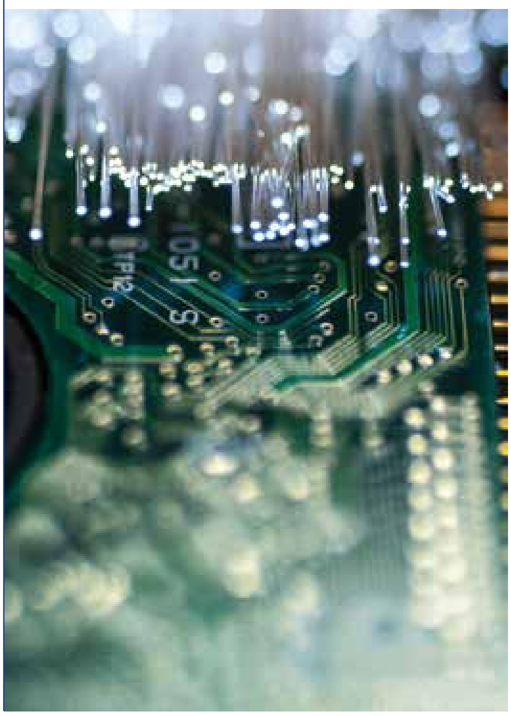
Conclusion

By enabling infrastructure competition on key long-haul fibre routes, FibreCo's network has helped reduce long-haul connectivity prices on these routes by more than 50%, allowing measurable savings to be passed on to the consumer. As FibreCo continues to roll out fibre throughout South Africa, the company is set to be a key contributor to the government's objective of delivering 100% broadband penetration by 2020. The construction, future operation and maintenance of the FibreCo network will ultimately result in the creation of over 2 300 direct and indirect job opportunities across the country by 2020.

CONVERGENCE PARTNERS

The FibreCo network

Online
2016



KEY FACTS

Company: Dark Fibre Africa
Investor: Harith
Sector: Telecommunications
Employees: 319

INVESTMENT IMPACT HIGHLIGHTS

- DFA created over 300 full-time jobs and in excess of 5 000 indirect jobs throughout the network build phase
- Enterprise businesses can now access high-speed connectivity through DFA's last mile and metro fibre network footprint
- Small internet service providers (ISPs) can compete with the dominant ISPs for the same customers via DFA's throughput-based connectivity solutions and by making use of DFA's shared points of presence

Dark Fibre Africa (DFA), a local open access dark fibre infrastructure provider and Level 2 BBBEE company, specialises in the financing, building and installation of carrier neutral, open access, ducting infrastructure. The company started rolling out its network in metropolitan areas in October 2007 and has laid close to 8 000 kms of infrastructure that is open to all providers, on equal terms. This infrastructure is commissioned by telecom and internet operators, which provide high-speed voice, data and video services to customers.

"The socio-economic benefits of fibre optic networks include fast, affordable broadband, which contributes to increased economic activity."

The company as an investment opportunity

The multiplier effect of broadband in driving GDP, productivity and job growth is well documented. Broadband access in South Africa was, for many years, governed by the national regulatory environment, which precluded smaller operators from entering the market. Changes in these regulations allowed DFA to enter the market with a view to becoming a leading optic fibre cable provider using an innovative open-access model. This made it an attractive investment opportunity for Harith.

The role of private equity

Stimulating growth in the SME sector

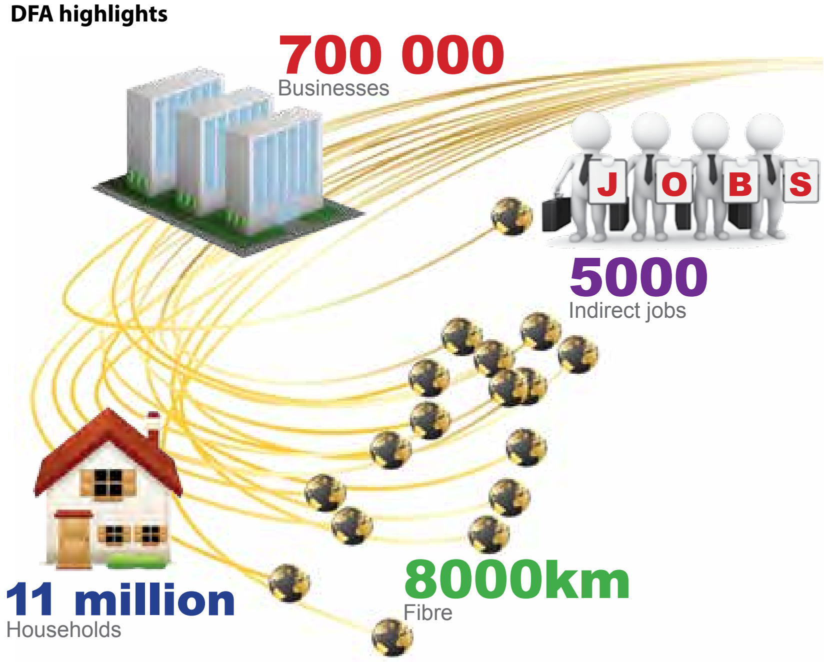
With fibre nearing saturation levels in the main urban areas of South Africa, Harith's strategic insight assisted DFA in identifying the need to service under-resourced areas and take advantage of pent-up demand. One example is DFA's provision of fibre for the Mthatha Hospital and surrounding areas in the Eastern Cape, which encouraged growth and made it easier to conduct business in the town. This strategy has opened up new markets for DFA and demonstrates Harith's patient-capital approach to managing its investments.

DFA has deep insight into market trends and keeps abreast of new developments. Early on, it identified the need to connect fibre to base stations, improving mobile internet speeds and driving demand for smart phones. In addition to boosting DFA's revenue, 3G internet has increased the ease of doing business in South Africa.

Improved BBBEE rating

The fibre-laying sector is characterised by a shortage of technical skills, particularly amongst previously disadvantaged individuals (PDIs). DFA recognises this and is committed to upskilling its workforce. Harith assisted DFA in changing the composition of the executive management team to be more representative of South Africa's demographics and to better understand the needs of its customer base. Management implemented a moratorium on the employment of non-PDIs. Any decision to the contrary requires executive approval. Since investment, it has invested significantly in the training and development of its staff. By upskilling its staff and bringing PDIs into the business, DFA improved its BBBEE rating from Level 4 to Level 2.

DFA highlights



Conclusion

When DFA was established seven years ago, the company was made up of three individuals. Today, it employs 319 permanent staff members and provides work opportunities for more than 5 000 people on large-scale projects. In addition, its efforts to fibre-up SMEs and provide connectivity to local enterprises dovetails perfectly with a larger government-led initiative to stimulate economic growth in the country. Importantly, the patient capital provided by Harith has allowed DFA to fibre-up smaller towns and remote areas where the demand is currently low, but expected to grow in the medium term. With over 700 000 registered businesses and more than 11 million households requiring high speed connectivity in South Africa, DFA's job is far from complete.

KEY FACTS

Company: Red Cap
Investor: Inspired Evolution
Sector: Renewable Energy
Type of investment: Development
PE shareholding: 30%
Investment amount: R14,072m ($1.41m) between June 2010 and November 2012 with a 30% equity interest in DEVCO; R98.311m ($9 831m) equity invested on 12 November 2012 for a 26.7% equity interest in KWF
Revenue: $40 million in 2016, indexed annually at CPI
Employees: 30 permanent; 183 temporary and permanent jobs during the 26-month construction period
EBITDA growth: $25m per annum (approximately 5% p.a.)

Red Cap Kouga Wind Development Company (Red Cap) is developing two onshore wind energy projects in South Africa's Eastern Cape Province with an emphasis on maximising the socio-economic impact for surrounding communities. The two projects include the Kouga Wind Farm (KWF) and Gibson Bay Wind Farm (Gibson Bay), which will generate 80MW and 111MW respectively. The Fund is joined by the Industrial Development Corporation (IDC)-funded BBBEE Trust (amongst others) in representing the interests of local communities in the region.

The company as an investment opportunity

Inspired Evolution's early-stage investment into Red Cap, the exceptional wind resource in the region and the high tariff secured for KWF in Round 1 of the REIPPP, combined to make a compelling blended commercial return for the Fund. Significant benefits for the local economy will be realised during the construction and operation of the KWF and Gibson Bay sites. It is anticipated that 85% of the operational costs will be spent in the Eastern Cape. This translates into an economic impact of approximately R90m ($9m) per year.

INVESTMENT IMPACTS

- Inspired Evolution assisted Red Cap in progressing its wind assets from pre-permitted to permitted status
- With the Fund's support, Red Cap was able to compete successfully under the Renewable Energy Independent Power Producer Procurement Programme (REIPPP)
- KWF will generate approximately 305.2GWh of clean energy per annum, mitigating approximately 305 220t CO_2 e of greenhouse gases each year
- The project comprises 26% black economic empowerment ownership with trust benefits ring-fenced to local, previously disadvantaged communities

The role of private equity

Financial gains for the local community

Inspired Evolution's investment provided both project development capital to progress the pre-permitted wind assets to permitted status, and project equity finance to construct, commission and operate the wind assets at project financial close.

Inspired Evolution was also instrumental in securing approximately R112m in share funding from the IDC for the local community ownership vehicle, Micawber 864 Proprietary Limited. Inspired Evolution advised extensively on structuring Micawber 864, which holds 26% equity of KWF and supports the Kouga Wind Farm Community Development Trust, ensuring real economic benefits for the community.

Enhancing governance structures

Inspired Evolution assisted Red Cap in improving its governance structures to manage the business in a transparent and efficient manner. This has involved building capacity to comply with the Equator Principles and adopting King III guidelines and board policies.

Local economic growth

The project provided employment for 183 people, predominantly from the local community, during the construction phase. It is expected to create employment for approximately 30 permanent employees during the operational phase.

Wind turbine assembly

INSPIRED EVOLUTION Investment Management

"By involving all stakeholders, we are able to develop successful projects that benefit and support local communities."

Red Cap adheres to strict targets regarding localisation of labour and suppliers. As such, the preferential procurement model made provision for 0.5% of total procurement during the consruction phase of the project to be spent on local women-owned vendors, and a further 1.35% on local SME vendors. This will be extended during the life of the project with the ultimate target being 5% and 10% respectively.

Conclusion

Inspired Evolution entrenched the principle of "limited economic leakage" from the project area, ensuring that tangible benefits flow to local, previously disadvantaged organisations and households over the life of the project. While benefitting the local community, DEVCO is providing much-needed renewable energy in a region that is under-supplied with power. Construction of the Kouga Wind Farm is expected to be complete early in 2015 and at Gibson Bay by early 2017.

AFHCO

Affordable Housing Company

KEY FACTS

Company: Affordable Housing Company
Investor: Old Mutual Investment Group
Fund manager: Old Mutual Alternative Investments
Sector: Social Infrastructure - housing
Type of investment: Equity and mezzanine debt
Enterprise value: R1.48 billion (at exit)
PE shareholding: 50%
Employees: 300 permanent; 1 000 peak

INVESTMENT IMPACT HIGHLIGHTS

- Large-scale capital raising to support growth in Afhco's portfolio, developing 7 000 units
- Supporting the efforts of the City Improvement District (CID) to create clean, attractive and crime-free areas in the city
- Providing affordable housing for middle- to low-income earners in Johannesburg's CBD

Founded in 1996, Affordable Housing Company (Afhco) is a developer and manager of affordable housing in the Johannesburg inner-city and surrounding areas. When Old Mutual Investment Group (Old Mutual) invested in the business in 2006, Afhco had a few hundred apartments in its portfolio. Over the next eight years, the company developed over 7 000 rental apartments. When Old Mutual sold its stake in the business in mid-2014, Afhco had approximately 5 000 units in its portfolio.

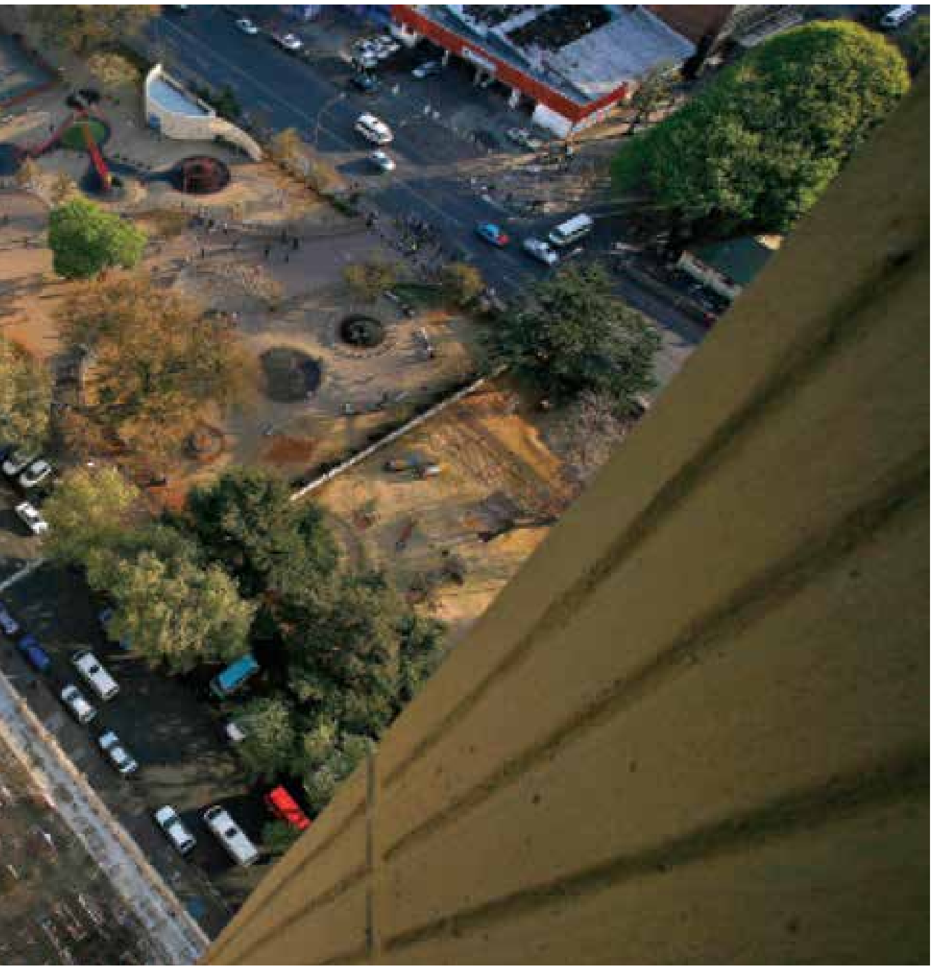
The company as an investment opportunity

Old Mutual saw the affordable housing market as an undervalued business opportunity, which was largely ignored by the formal listed market. It recognised Afhco's success in offering low-cost housing to the country's middle and lower income market as well as its low vacancy rates and negligible bad debt. Afhco's participation in rejuvenating Johannesburg's CBD as an emerging economic zone was also attractive to Old Mutual.

The role of private equity

A strong strategic partnership

Prior to Old Mutual's investment, Afhco had access to limited financing options. With two non-executive seats on Afhco's board, Old Mutual brought its experience in large-scale capital raising and property finance to the mix. In addition, it provided practical guidance in terms



Old Mutual Alternative Investments is a business within Old Mutual Investment Group. It manages investments in private equity, infrastructure and a range of impact funds.

of improved corporate governance to Afhco's management team and raised the company's credibility to attract large commercial lenders such as Nedbank, Standard Bank and ABSA.

Meeting the housing needs of lower-income earners

Afhco was able to increase its portfolio significantly and provide much-needed housing for people in Johannesburg's CBD where many were living in poorly managed buildings without proper access to water and electricity. Afhco offered value for money at affordable prices for a low- to middle-income market, a segment of the population which has proved to be financially prudent. All the buildings acquired by the company were selected for their close proximity to various amenities such as transport hubs, retail outlets and eateries.

Inner-city revitalisation

Afhco's substantial investment in inner-city accommodation is in support of the CID's efforts to revitalise the CBD. Where possible, Afhco attempts to group its buildings together to create communities and safe areas for residents in the CBD. The company encourages other landlords and like-minded people to buy in these areas to help rejuvenate entire neighbourhoods. Each building has laundromats, fingerprint access, crèches, internet access and coffee shops. In addition, Afhco has partnered with initiatives such as CityKidz Street patrollers to provide enhanced neighbourhood safety.

Children at play

Conclusion

The challenges presented by the global financial crisis were weathered well by Afhco's management team in its acquisition of old buildings. In addition, by structuring an affordable product that offered excellent value for money, Afhco attracted customers who were looking for a better-quality lifestyle. Importantly, with the support of Old Mutual, Afhco was able to play a leading role in transforming Johannesburg's inner city into a more desirable place for people to live and work. This is a role it continues to fulfil today.

MANUFACTURING

Efekto

Coega Auto

Lincoln Lubrication SA

KEY FACTS

Company: Efekto
Investor: Vantage Capital
Sector: Household and garden protection products / FMCG
Type of investment: Mezzanine and PIK Loan
PE shareholding: 15% (in addition to mezzanine and PIK financing of R87m)
Investment amount: R87m
Revenue: R354m (Dec 2012)
Employees: Efekto: 148 (Dec 2012)
Avima: 42 (Dec 2012)

INVESTMENT IMPACT HIGHLIGHTS

- Assisted with the sourcing of an experienced CEO and CFO to help guide the company's expansion plans
- Provided strategic assistance in structuring Efekto's acquisition of pesticide manufacturer, Avima

Efekto distributes and manufactures chemicals for the home gardening, home protection and public health markets. Since the company began operations in 1973, it has introduced more than 500 products to the market. Some of these include Rosecare, Garden Ripcord, Shake and Grow, Efekto pesticides and Wonder fertilisers. Vantage's mezzanine financing helped the company increase its product range in South Africa and expand into the rest of Africa. Vantage exited in 2013 when Efekto's holding company, Ascendis Health, was listed on the JSE.

The company as an investment opportunity

Vantage Capital was approached by Ascendis Health, the health and lifestyle subsidiary of Coast2Coast Investments, which was looking to acquire Efekto. At the time of the acquisition in 2011, Efekto held an approximately 70% share in the plant protection market through its Efekto brand and an approximately 50%-60% market share in the plant nutrition market through its Wonder fertilizer brand. This, combined with Efekto's nationwide depot footprint and its dedicated distribution network that extended into the SADC region, made it an attractive opportunity for investment. Vantage provided mezzanine debt worth R45m and a PIK loan worth R42m and acquired a 15% equity stake as a BBBEE mezzanine financier. To execute the transaction successfully, Ascendis and Vantage partnered with the existing Efekto management team.

The role of private equity

Relationship capital

Vantage, through its two observer seats on the board, played a central role in the appointment of new executives at Efekto. Vantage was intimately involved in securing candidates, some with more than 20 years' experience in the pharmaceutical and healthcare sector, for the roles of Board Chairman, CFO and CEO. Their experience helped Efekto secure more chemicals registrations in new markets at an efficient pace.

African expansion

With a strong management team in place, Ascendis and Vantage oversaw the expansion of Efekto into Africa. This growth was driven largely by Efekto's subsequent acquisition of a leading South African pesticide manufacturer, Avima, which had 180 registered pesticides throughout Africa and contributed to 10% of Efekto's supply chain. Subsequent to the acquisition, Efekto was able to tap into Avima's extensive African network and utilise the chemical registrations it had in new markets. Since the acquisition, Efekto's revenues from outside of South Africa have grown significantly.

Conclusion

With Vantage's strategic guidance and funding, Efekto was able to expand its business operations beyond South Africa, accessing new markets and increasing revenues. This has seen the organisation provide certified and safe gardening and home care chemicals to the continent's growing middle class.

Market share

VANTAGE CAPITAL

"Vantage's mezzanine financing helped the company increase its product range in South Africa and expand into the rest of Africa."

KEY FACTS

Company: Coega Autospray
Fund manager: Edge Growth
Investor: Vumela Enterprise Development Fund
Sector: Automotive
Category of investment: Growth and expansion capital
Enterprise value: R20m
Employees: 112

INVESTMENT IMPACT HIGHLIGHTS

- Edge's strategic input through a seat on the board and ongoing Business Development Support (BDS) assisted Coega in expanding its service offerings to incorporate the moulding of spray-painted vehicle parts. This positioned the company to enter new markets
- The business created employment opportunities, led to upskilling of the workforce and raised salaries in an economically depressed region
- Edge assisted in identifying areas to improve financial reporting and corporate governance with a view to ultimately improving the company's exit valuations

Coega Autospray (Coega) was founded in 2002, and supplies spray-painted moulded parts to original equipment manufacturers (OEMs) in the automotive industry. Located in South Africa's vehicle manufacturing hub in the Eastern Cape, the company won large contracts with Volkswagen and General Motors and required a relatively small amount of capital to meet the quality and order demands of its new clients. After seeking finance from banks, Coega pursued investment from Vumela Enterprise Development Fund, which is capitalised by FirstRand and managed by FNB, in partnership with Edge Growth as the fund management and enterprise development specialists.

The company as an investment opportunity

Coega Autospray's high growth potential and its servicing of a niche market in the automotive industry made it an attractive investment opportunity for Edge to propose to the Vumela Enterprise Development Fund. In addition, Coega's potential to create employment in the Eastern Cape was appealing, especially given the fund's focus on opportunities that demonstrate significant potential for social impact.

The role of private equity

Strategy for growth

With a seat on the board and expertise in management consulting, Edge facilitated strategy workshops and ongoing business development support at Coega. This helped the company's management team better understand key drivers of the business and steer it through challenging economic conditions. In addition, Edge assisted in improving financial reporting in the company and encouraged management to consider business diversification, which led to the introduction of a moulding factory.

Job creation in the Eastern Cape

While the Eastern Cape is home to four of South Africa's seven OEMs, the region remains one of the poorest in the country and, as such, jobs are in short supply. Coega was able to sustain the jobs at the time of investment, as well as increase the number of people it employed from 64 to 112 on the back of significant growth in revenues and profits. This growth was a result of the company solidifying its key quality spray-painting offering and diversifying its operations to include a moulding plant aimed at meeting clients' specific needs. This development also led to the training of Coega employees, increased salaries and improved on-site health and safety performance.

Conclusion

Prior to investment, Coega struggled to finance the expansion of the business and deliver on orders from new major clients. The investment enabled the company to diversify its service offering, which in turn increased revenues and profits exponentially as well as ensured growth in jobs created. Coega is evidence that carefully managed investments can be profitable in the South African automotive industry.

"Coega is evidence that carefully managed investments can be profitable in the automotive industry in South Africa."

LINCOLN LUBRICATION SA

KEY FACTS

Company: Lincoln Lubrication SA
Investor: Horizon Equity
Sector: Industrial
Type of investment: Later stage/buyout
Investment amount: R42m
PE shareholding: 60%
Revenue: R162m (Feb 2014)
Revenue growth: 23% (six years ended Feb 2014)
Employees: 150 including 20 outside South Africa

INVESTMENT IMPACT HIGHLIGHTS

- With Horizon's backing, Lincoln increased its presence in the rest of sub-Saharan Africa through the establishment of subsidiaries and distributors. This has driven a tenfold increase in export sales, generating valuable foreign exchange benefits for South Africa's economy.
- Since Horizon's investment, the company generated almost 100 permanent jobs, including a substantial number of skilled technician positions
- In 2011 Lincoln established the Lincoln Training Academy, South Africa's only formal training centre for lubrication technicians to address the need for more technical expertise in the sector
- Improved occupational, health and safety (OHS) measures were instituted at Lincoln and an OHS officer was employed

Lincoln office in Germiston

Lincoln Lubrication SA (Lincoln) has been supplying automatic lubrication systems and related equipment to the mining, food infrastructure, agri-mining and manufacturing industries since 1993. Its products, the majority of which are imported from Europe and the United States, are frequently chosen as the equipment of choice for original equipment manufacturers (OEMs). The company adds significant value to these products through the design, installation and subsequent servicing of complete systems for specific applications.

Horizon Equity (Horizon) invested in Lincoln in 2008, funding an ownership change as well as giving Lincoln the boost it needed to further expand its footprint into the rest of Africa.

The company as an investment opportunity

Horizon saw Lincoln as well-placed to build on its leading market position in South Africa through a combination of geographic expansion into the rest of sub-Saharan Africa and product range extension into related asset protection/maintenance products. Horizon also believed that by building Lincoln's distribution capability in the rest of Africa, the company would become an attractive acquisition for a strategic buyer.

The role of private equity

Business strategy input

Prior to investment, Horizon identified the opportunity to expand Lincoln's product range beyond lubrication to incorporate other physical asset protection products such as fire suppression equipment, hose reels and workshop tools, to service a similar customer base. Post-investment, Horizon's executives worked with Lincoln's management to identify, evaluate and select relevant product suppliers.

Improved safety measures

A condition of Horizon's investment was the implementation of improved OHS management measures at Lincoln to align it with international best practice. Lincoln enhanced its own safety procedures by seeking advice from OHS consultants, employing a full-time OHS officer, introducing a formalised accident reporting system, improving workflow signage, ensuring the ongoing, correct usage of PPE and conducting regular OHS talks for employees.

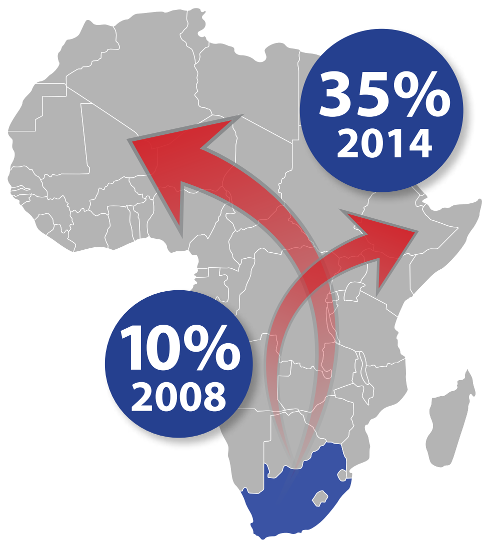
Organisational development

Building the top management team and correctly incentivising the members were priorities for Horizon. Through the structure of Horizon's investment, senior management was able to increase its collective shareholding from 30% to 40%, with a reallocation amongst individual executives that was better correlated to their responsibilities going forward. Horizon developed and implemented the company's first structured short term incentive scheme for management with clearly defined targets to align the interest of shareholders and management. In addition, Horizon assisted Lincoln in identifying and recruiting its first CFO, who improved financial management at Lincoln by introducing a new ERP system and optimising working capital.

Conclusion

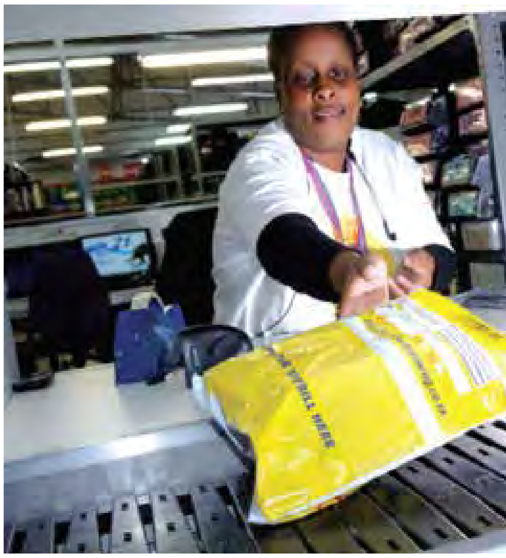
Horizon's investment in Lincoln has been an important driver of the organisation's growth and formalisation of its financial management systems, reporting structures, OHS practices and corporate governance. Lincoln has set an industry benchmark with the establishment of its Lincoln Training Academy, which is aimed at raising the bar in technical lubrication knowledge and skills. On the back of strong performance in South Africa, Lincoln has successfully illustrated how an investment in a South African company can provide a gateway to rapidly expanding economies on the rest of the continent. During Horizon's ownership, the proportion of sales originating from countries outside South Africa grew from 10% to close to 35%.

Proportion of sales exported to rest of Africa



"Our reporting structures and growth potential were greatly enhanced following investment by Horizon."

Central warehousing in Johannesburg



RETAIL AND SERVICES

Milpark Education
Medipost Pharmacy
TiAuto

MILPARK EDUCATION

KEY FACTS

Company: Milpark Education
Investor: Leaf Capital Private Equity and Management
Sector: Higher education
Category of investment: Buy out / growth
Acquisition date: 2011
Exit date: May 2014
Enterprise value at exit: R327.5m

INVESTMENT IMPACT HIGHLIGHTS

- Leaf Capital Private Equity (LCPE) provided strategic input and, together with management, repositioned Milpark at the forefront of the independent higher education (HE) sector
- LCPE assisted Milpark in diversifying and expanding its customer base to reduce dependency on a few large institutional clients and broaden appeal to younger students seeking first-time HE

Milpark Education (Milpark) was established in 1997 as one of the first private providers of higher management education in South Africa. Milpark later registered as an independent private Higher Education (HE) institution and today is accredited with a variety of industry associations as a provider of Further Education and Training (FET) qualifications. The Company has grown into a prominent educational institution with two campuses and over 14,500 students enrolled countrywide.

Milpark is recognised as a leading niche provider of educational programmes in banking, financial planning, insurance and management, which range from FET courses to HE certificates, degrees and masters programmes, including a top-ranked private MBA. Many courses are structured to allow for distance learning, which has extended Milpark's accessibility to areas where premium HE has not previously been available. The programmes and courses use 41 venues across South Africa.

The company as an investment opportunity

When the opportunity to acquire Milpark arose in 2011, LCPE, acting through the investment holding company Leaf Capital Infinitus, was attracted by the strong sector fundamentals and growth prospects. A number of key highlights stood out:

- High barriers to entry due to onerous requirements for regulatory approval, high replacement cost of facilities and long lead times to introduce new qualifications and gain accreditation

- High pricing power coupled with a growing demand for tailored private HE solutions from a trusted provider
- Opportunity to leverage an established South African platform into the wider African HE and FET markets, characterised by a growing middle class driving demand for private education and training

The role of private equity

Milpark processes and strategy reviewed

As an active private equity fund manager, LCPE adopted a hands-on approach and together with management formulated a revised strategy for the business, which included diversifying its customer base. This was a critical move as shortly into Leaf's investment the large banks and insurers, that made up a large proportion of its customers, began shifting their focus away from traditional training towards compliance training. LCPE enlisted the services of external consultants, who undertook an in-depth analysis of the business, its structures and processes and service offering portfolio.

Broader range of courses offered

With many of the tertiary institutions in South Africa stretched to capacity and unable to fulfil the needs of students in full-time employment, Milpark fills a gap in the market by offering career-focused distance and contact learning. Milpark refreshed its brand and course offerings to appeal to a broader customer base. Its MBA is more attractively priced than many of the competitor MBA courses offered at public universities, making it more accessible to South Africa's growing middle class. In 2013, Milpark was ranked the number one private provider for MBA programmes in the PMR Africa Business School rankings.

Conclusion

The measures implemented played a significant role in attracting the interest of a number of financial investors and trade buyers, including US-based Apollo Global (Apollo), one of the world's largest private education investors and a subsidiary of the NASDAQ-listed Apollo Education Group. Apollo was seeking an African presence and identified Milpark as a platform for expansion into South Africa and beyond. LCPE exited its stake in Milpark in May 2014, which proved to be a highly successful private equity transaction.

Medipost Pharmacy

KEY FACTS

Company: Medipost Pharmacy
Investor: Medu Capital
Sector: Pharmaceuticals/Retail
Type of investment: Growth
PE shareholding: 40%
Revenue: R2.2bn (Feb 2014)
Employees: 1 300
EBITDA growth: CAGR over 6 years: 29%

INVESTMENT IMPACT HIGHLIGHTS

- The intake of learners at Medipost training academy increased from 34 in 2010 to 294 people and a bursary scheme was instituted for university students pursuing pharmacy degrees
- Medipost's internal capability to deliver oncology and HIV/AIDS medicines to patients based predominantly in rural and township areas was boosted
- Enhanced governance structures introduced at Medipost improved its BBBEE rating from level 4 to level 2

In 1991 Medipost Pharmacy (Medipost) identified an opportunity to conduct regular deliveries of chronic medication and other healthcare products to its existing customers as well as to a large, untapped customer base. Since then, it has contracted its services to more than 132 medical aid schemes and become the largest courier pharmacy for chronic medicine in the country, dispensing approximately 450 000 prescriptions per month.

Medipost partnered with Medu Capital in 2009 with a view to aligning itself with the South African government's Broad-Based Black Economic Empowerment (BBBEE) requirements and boosting its growth prospects. The resulting deal enabled Medipost to improve its BBBEE rating from Level 4 to Level 2. It also saw the company expand its market share significantly, establish an additional hub in Cape Town and increase employee numbers from 408 at investment to more than 1 300 in 2014.

The company as an investment opportunity

A significant share of the courier pharmacy market, ongoing innovation and a strong management team, coupled with the potential for expansion, made Medipost an attractive investment opportunity for Medu Capital.

The role of private equity

MEDU CAPITAL

Skills development

According to the South African Pharmacy Council, there is a shortfall of 750 new pharmacists entering the industry every year. With Medu Capital's support and as one of the top employers of pharmacists in the country, Medipost introduced a bursary scheme in 2012 aimed at building capacity in the sector. In addition, the growth in the business allowed Medipost to bolster the number of learners on its 28-month post-basic learner pharmacist programme at the Medipost Training Academy. The programme is aimed at people without a tertiary education and allows them to enhance their earning potential from about R2 800 to R18 700 per month.

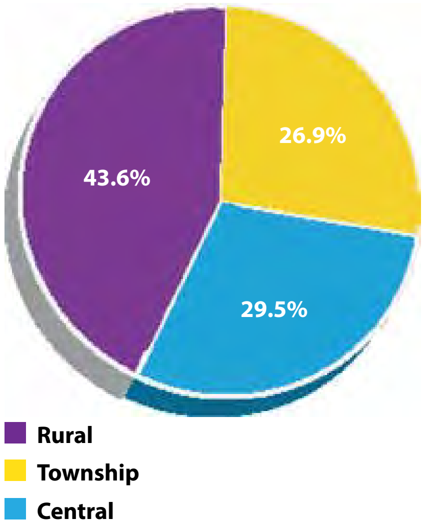
Delivering critical services

Since investment, Medipost has increased its capacity to deliver HIV/AIDS medicines to rural areas and townships, which today account for 70.5% of its geographic reach. In December 2012, Medipost started delivering highly specialised oncology medication for about 500 patients. Since then, it has become the second largest oncology pharmacy in the country, dispensing over 8 500 scripts per month nationally. Medipost's Level 2 BBBEE rating made it eligible to be awarded a contract by the Department of Health, to dispense chronic and HIV medicine to approximately 150 000 patients in clinics and hospitals in rural KwaZulu-Natal.

Improved governance

At the time of Medu's investment, Medipost was largely a family owned business with informal governance structures. Medu Capital assisted Medipost in formalising the company's board and shifting its focus from the operational aspects of the business to more strategic thinking. Medu sourced a chairperson for the board, who brought invaluable insight into the business, specifically with regard to its target market. In addition, it assisted the company in establishing a Social and Ethics Committee and Remuneration Committee. Medu supported the introduction of a management share scheme, which helped to retain and incentivise top management.

Patient geographic footprint



"The high-level insights provided by Medu Capital over the years have proved invaluable to the business."

Conclusion

Medu Capital's investment in Medipost in 2009 entrenched its position as a market leader. Today, the company plays a significant role in delivering critical, life-saving medicines to the doorsteps of people in rural areas and townships. Since Medu Capital's investment, the company has been able to expand its footprint and ensure people in some of South Africa's most poverty-stricken areas get access to healthcare and medicines, particularly those necessary to help in the battle against HIV/AIDS.

KEY FACTS

Company: TiAuto
Investor: Ethos Private Equity (Ethos Fund V)
Sector: Automotive/speciality retailer/ wholesaler
Type of investment: Growth and expansion
PE shareholding: 74.4%
Investment amount: R399.6m
Employees: 1 550

INVESTMENT IMPACT HIGHLIGHTS

- Provide global and broader business principles and senior management as an enabler of business
- Create a strong focus on a sustained growth agenda
- Assist in the development of new brands, product lines and extend TiAuto's service further into the lower income segment of the population
- Introduce deeper reporting systems, establishing a foundation for expansion with the focus on the rest of Africa income segment of the population

A speciality retailer and wholesaler of wheels, tyres and automotive-related products and services, TiAuto comprises retail and wholesale businesses. In 2008, TiAuto wanted to pursue a delisting and required funding to expand its operations and capitalise on a growing need for tyres in South Africa. In addition, the company wanted to explore new markets and enhance its leadership position in the wheel and tyre market. TiAuto's retail operations include Tiger Wheel & Tyre, YSA and, more recently, Tyres & More, Treads for Africa and Treads Unlimited, with over 104 outlets and two large wholesale businesses. In addition, 2013 saw the launch of a TiAuto JV in the credit extension financial services space, which allows consumers access to credit when purchasing goods or services from any of the retail divisions.

The company as an investment opportunity

In the four years prior to Ethos' investment in 2008, the number of cars on South African roads increased by 33%. As a result, Ethos anticipated a commensurate increase in the replacement tyre market. In addition, relatively low rates of car scrapping, largely as a result of limited public transport options, also drove the need for new tyres. At this time, Ethos was attracted by TiAuto's leading market position as the largest independent tyre retailer in South Africa, experienced management team, well-established brands and key nationwide retail locations.

The role of private equity

Social and Ethics Committee

A requirement of Ethos' investment was the establishment of a social and ethics committee, incorporating an Ethos representative to chair the committee. This initiative was readily accepted by TiAuto management as it aligned well with their employee centric commitment. The committee met biannually to discuss HR issues, ESG reporting requirements, customer relations and employee skills development. This enabled Ethos' direct input into TiAuto's day-to-day operations, beyond its strategic, board-level input.

New retail brand

Through its board representation, Ethos partnered TiAuto in endorsing an opportunity to service a new customer base and expand the business. Accordingly, Tyres & More was established in 2013 as a tyre retailer and auto-fitment centre targeting the lower income segment of the population through both company owned and franchise opportunities. Tyres & More is characterised by high-growth potential and it grew from one outlet in August 2013 to 18 as at December 2014. Outlets are strategically located in provincial towns as well as more typical retail nodes to service its broad customer base through an enhanced product offering. In addition, Tyres and More benefits from the in-house credit offering provided by Xpress Credit to promote sales growth to further appeal to the target market.

Supporting local businesses

Due to their size, durability and composition, waste tyres are difficult to dispose of in an environmentally responsible manner. Cognisant of the negative environmental impact associated with waste-tyre disposal, TiAuto partners with scrap-tyre collectors, who recycle and reuse the tyres to fire power stations or are "crumbed" to be reused as a filler in road quality bitumen. This means that TiAuto is able to dispose of its waste tyres in an affordable manner while reducing the amount of tyres going to landfill every year.

Promoting safety at work and on the roads

Tyres are a key component of vehicle safety. Ethos provided support for TiAuto's well-established world-class health and safety and quality control systems and assisted with the introduction of best of breed international practices. Subsequent to Ethos' investment, TiAuto has consistently scored in the ninety percentiles for externally audited health and safety audits. Appropriate installation and superior consumer advice have made a meaningful contribution to community safety.

Continuous improvement and IT systems investment

Following initial investment, and in line with Ethos' vision, TiAuto has been able to continually streamline the company's IT systems, building a solid foundation for expansion into the rest of Africa and the effortless addition of new divisions. A bespoke software system is used across all retail outlets to service clients and optimise customer turnaround times, ensuring service consistency.

Conclusion

Throughout Ethos' investment, TiAuto was able to focus on the important job of getting on with business, improving the quality of its service and expanding its customer base to incorporate new segments of the population. TiAuto's quality record is significantly above the industry average. This dedication helps promote road safety amongst its customers in a country that is characterised by a high road accident rate. In addition, Ethos helped the business enhance its management systems and successfully position itself for expansion into Africa.

NOTES

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