

MEDIA RELEASE

24 June 2015

SA private equity remains steady, funds returned to investors increase, according to latest KPMG-SAVCA figures

Now in its 15th year, the KPMG-SAVCA Private Equity Industry Survey represents over 90 percent of total South African private equity funds by value. For the 2014 calendar year, funds under management represent a compound annual growth rate of 11.3 percent (excluding undrawn commitments) since the inception of the survey in 1999.

Last year, the local private equity industry experienced a slight increase in total funds under management, which grew to R171.1 billion (up from R169.3 billion in 2013).

A significant portion of these funds, amounting to R54.9 billion, are in the form of undrawn commitments. “These funds are yet to be deployed and the private equity fund managers remain active in seeking suitable transactions,” says Warren Watkins, Head of Private Equity at KPMG.

The funds, in the majority, are generalist in nature, i.e. not specific to any particular industry. R13.3 billion of the R54.9 billion in undrawn commitments can be deployed in Africa and or South Africa, with the remainder dedicated solely to South African investment.

Private equity fund managers in the Captives–Government category for the first time control the largest portion of the total funds under management with R68.3 billion, Independents control R66.0 billion and Captives-Financial Services R29.2 billion. In the last 5 years Captives-Government have increased its share of funds under management from R12.1 billion to R68.3 billion. This is primarily as a result of the GEPF significantly increasing its allotment to private equity. During this period, Regulation 28, which governs pension fund investments, increased the permissible allocation to private equity from 2.5% to 10%.

Total funds raised in 2014 amounted to R6.8 billion, 43% of which was raised outside of South Africa. This amount is significantly less than the record total R30.9 billion raised in 2013 which was primarily related to the GEPF’s significant increased allocation to Private Equity.

Investments made during 2014 year totalled R17.4 billion. The majority of these investments are for new as opposed to follow-on investments, reversing the previous trends seen in 2011 and 2012. The average deal size for the new investments during 2014 increased to R153 million, from R64 million. “This signals the strong return to the acquisition market of some of the larger private equity funds,” says Watkins.

The realisation market in the South African private equity industry returned the highest amount of capital since 2011, with funds returned to investors increasing by 44.7% from R9.8 billion during 2013, to R14.2 billion in 2014. There was an implied times money multiple of 2.3, which is a significant increase on the 1.6 in 2013 and the 1.2 in 2012.

Black Economic Empowerment (BEE) investments remain a significant portion of the M&A activity in South Africa. "Many of the private equity transactions today have a BEE component to their structure, which assists in facilitating BEE shareholdings," says Erika van der Merwe, CEO of the Southern African Venture Capital and Private Equity Association (SAVCA). Of the R17.4 billion invested in 2014, R12.4 billion was classified as investments made into entities that are at least black influenced. "Employment equity with private equity funds is also a significant consideration, and there has been an increase of 21% in black staff members from 2013 to 2014", says van der Merwe.

Returns in the private equity market, over the 10 and 5-year historical periods have averaged 19.1% and 17.7% respectively. Both of these returns exceed the JSE All Share Index. Three-year returns reflect a return of 14.1% compared to the JSE All Index share index of 19.5%. "Many of the investments are still to be realised and may reflect conservative accounting valuations. Private Equity has historically reflected consistent returns above equity markets, a fair return for the perceived risk, but an increasingly attractive market for the pension fund," says Watkins.

"In summary, the 2014 survey shows an industry in a steady state, with fund managers actively looking for a relevant acquisitions," says Watkins. "Private equity has seen a significant increase in investment from the government sector over the past five years, and the growth effect on portfolio companies, given historical results achieved by private equity fund managers, should be very positive" says van der Merwe.

Ends

Media contact:

Warren Watkins

Director at KPMG, Head of Private Equity and Restructuring Advisory

Tel: +27 (11) 647 7128

Email: warren.watkins@kpmg.co.za

About KPMG:

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have more than 162,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

About SAVCA:

SAVCA is the industry body and public policy advocate for private equity and venture capital in Southern Africa. It represents approximately R170 billion in assets under management.

SAVCA promotes Southern African private equity by engaging with regulators and legislators on matters affecting the industry, providing relevant and insightful research, offering training and creating meaningful networking opportunities for industry players.