

Private equity in Southern Africa: Dealing in Abundance

Cape Town, 17 February 2016: Private equity in Southern Africa experienced steady deal flow and exit activity in 2015 and, with a number of private equity houses having announced successful fundraising programmes, the industry is well positioned to back new deals in the coming years.

The CEO of the Southern African Venture Capital and Private Equity Association (SAVCA), Erika van der Merwe, says that assets under management in the industry has continued to expand, owing to new capital inflows and thanks to returns generated within private equity portfolios. “The latest performance figures for the industry confirm that investors into South African private equity funds continue to enjoy double-digit rand-based returns which over the long term compare favourably with yields from listed markets.”

These industry trends are featured in the various panel discussions and presentations at the SAVCA 2016 Private Equity in Southern Africa Conference, entitled *Dealing in Abundance*, taking place in Stellenbosch, Cape Town this week (17-18 February).

Burgeoning investor interest in Africa

A significant portion of capital raised by private equity fund managers in Southern Africa originates from foreign investors, pointing to sustained interest in private equity in the region. “A thirty-year industry track record supports private equity fund managers’ appeal amongst institutional investors in North America, Europe and the Middle East and helps bring foreign capital into the local economy”, says Van der Merwe.

Nicole Paige, a partner at Webber Wentzel, describes 2015 as having been a “very active year” for fundraising by local private equity fund managers, with a number of first closes having been achieved. “The coming months will see various second and final closes, as these managers get the last investor commitments over the line. There are also several new funds coming into the market.” Currency considerations will likely render fundraising more challenging in the next year or two, she warns, particularly for managers investing in rand who need to provide dollar returns to offshore investors.

According to Lydia Shadrach-Razzino, a director at ENSAfrica, there is lively interest in private equity across sub-Saharan Africa, with many investors viewing various African markets as an attractive source of returns. “We continue to see strong focus on Africa from investors and, during 2015, there was a surge in fundraising by private equity funds with a mandate to invest in sub-Saharan Africa”.

Van der Merwe says that, given the increasing regulatory hurdles and cost of raising funding in Europe and to a lesser extent in the USA, it is critical for the Southern African private equity industry that new

local investors be brought into private equity and venture capital. A particular focus will be to market the asset class to pension funds in South Africa and other African jurisdictions.

Generating private equity returns in a low-growth environment

With a number of private equity houses in Southern Africa and across sub-Saharan Africa having completed successful fund raises in recent years, deal-making activity has been brisk. Van der Merwe notes that SAVCA members across the size spectrum sealed transactions during the course of 2015, with a number of further deals still in the pipeline.

“Managers continue to see opportunity and, with careful deal selection and thoughtful, focused and active management, they work to ensure that the investee companies become better and more buoyant businesses – whatever the macroeconomic circumstances.”

Stuart MacKenzie, CEO of Ethos Private Equity, says that his team’s approach to sourcing the right deals is to identify businesses that have the potential to outperform despite economic headwinds, and then partnering with management teams that strive for excellence in leadership, strategy and execution.

“Periods of increased volatility and complexity require strategic agility to take advantage of the opportunities that inevitably arise, whilst managing the risks,” MacKenzie says.

Leadership, both at the fund manager and at the portfolio company, is pivotal to successful value creation, says Andrew Dewar, managing partner at Rockwood Private Equity. “Strong management is the cornerstone of our investments and our role is to support the portfolio company’s management post-acquisition in implementing strategies that are dynamic in nature and adaptable to changes in the macroeconomic environment.”

Excellence in exits: a rise in realisations

The Southern African private equity industry has seen a number of exits over the past year, as mature portfolios reach the end of life and prepare to return capital to investors. These asset realisations have supported the positive returns performance from the industry.

The RisCura-SAVCA South African Private Equity Performance Report, the latest edition of which was released last week, shows that South African private equity delivered a ten-year internal rate of return (IRR) of 20.7% in the period ending September 2015. This compared with the 14.9% yielded by the JSE All Share Total Return Index (ALSI) over the same period.

Private equity in 2016 and beyond

Van der Merwe concludes that she expects the private equity industry in Southern Africa to remain buoyant during 2016, with managers likely to make regular announcements of acquisitions and asset realisations.

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About SAVCA:

The Southern African Venture Capital and Private Equity Association (SAVCA) is the industry body and public policy advocate for private equity and venture capital in Southern Africa, representing about R170 billion in assets under management, through more than 140 members. SAVCA promotes Southern Africa private equity by engaging with regulators and legislators on a range of matters affecting the industry, providing relevant and insightful research on aspects of the industry, offering training on private equity and creating meaningful networking opportunities for industry players.