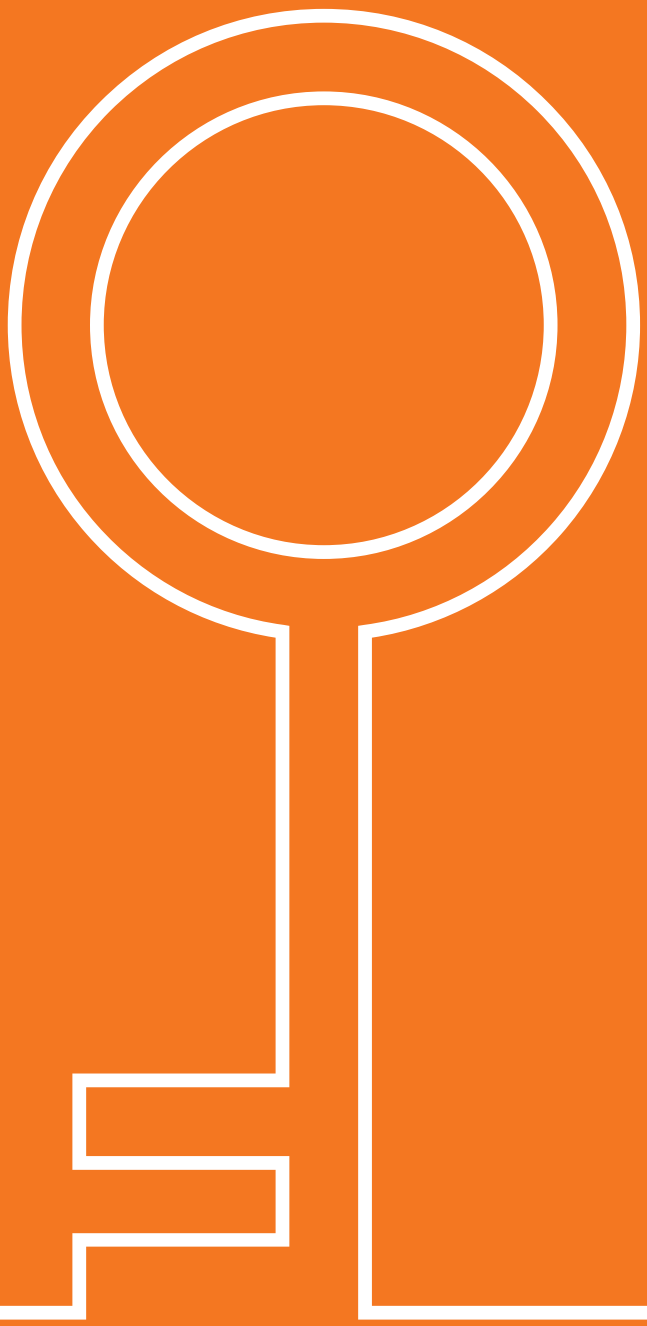

Valuable partnerships

A distinguishing feature of private equity is its thoughtful, focused and active management of the businesses it acquires. The industry provides capital that is astute and agile, and that helps companies function better and more profitably. Private equity fund managers share their models for value-adding in portfolio assets.

Private equity capital often finds itself competing for deals against other types of capital providers. Its competitive advantage is in offering far more than capital: for those businesses for which private equity is a good fit, the strategic support, fresh networks and operational insights that come as part of the bidder's package are the factors that ensure that the deal is clinched. The returns track record of the industry – in South Africa, private equity has outperformed listed equity over the past decade – shows that private equity managers are delivering on this promise, and are working hard in partnership with their portfolio companies to find avenues for enlarged turnover growth, earnings expansion and job creation.

The emphasis on the value-adding role of private equity is evident especially in emerging markets private equity, where there is enormous scope to match high-growth potential businesses with the fund manager's perspective and strategic skills. It is also an essential line of approach when tepid economic conditions force businesses to act smarter in order to capture earnings growth.

Siyabonga Nhlumayo, principal at Medu Capital, says his firm is "always focused on achieving returns through capital appreciation, with less focus on gearing or financial engineering. And that could be achieved by improving operating marginor improving earnings".

Siyabonga Nhlumayo

He adds that Medu Capital is investing in companies that are growing and which have the potential to grow further. "South Africa has some established medium-sized companies that have the ability to find exposure to other markets, beyond the relatively low-growth local environment. This exposure may be through the opening of sales offices in other countries, or through the acquisition of assets there".

Nhlumayo's advice for success in a slow-growing market is to ensure sustained competitiveness through a strong focus on improving efficiencies and working capital management. "I think we're all hopeful that, if we grow those businesses right, in the medium term we'll be exiting in a buoyant market."

Ethos Private Equity has a dedicated team of professionals working on implementing its value-add model. Richard Fienberg, a partner at Ethos, says that "our model has evolved from embedding basic disciplines to building capability for sustained outperformance. Our persistent goal is to stretch ourselves and management teams in areas of leadership, vision, and urgency."

Referring to experiences over the past year he says "we've enjoyed significant successes by providing constructive, solution-oriented input. Though some of our interventions have been tough, we've shifted our businesses strategically while directly supporting performance delivery and building leadership capacity".

Richard Fienberg

Focus on management

The theme of strong leadership, both at the fund manager and at the portfolio company, is pivotal to successful value creation. Andrew Dewar, managing partner at Rockwood Private Equity, elaborates on the level of skilled management at the firm's portfolio companies.

"Strong management is a cornerstone of our investments. Management has to have its own strategy; our role is to support management in implementing the strategy."

"Post-acquisition, we are well represented on the boards of all the companies in which we've invested and we typically have control positions. We work closely with management post-acquisition to implement strategies," he says.

Rockwood Private Equity manages the Rockwood Fund I, a R6.5 billion South African leveraged buyout fund with five portfolio companies: a polypropylene and polyethylene producer Safripol; a household furniture maker Bravo; a facilities management, catering, cleaning and corporate security services firm Tsebo; a waste-management company Enviroserv; and Kwikspace, a prefabricated buildings manufacturer.

Dewar adds that strategies are dynamic in nature, and require the private equity manager to be quick-thinking and adaptable: "A strategy that looked very viable in 2008, didn't look so viable in 2009; and the strategy that looked incredibly feasible at the beginning of last year, doesn't look workable anymore. This is driven by changes in the macroeconomic environment."

Andrew Dewar

Further, strategy is unique to each company, and to the management teams, he says. "You need to align the strategies to the skills of the management teams. The opportunities that are presented in Africa, for example, are fundamentally different for each company, and for each of the regions in Africa. What may be attractive to one company may be completely uninteresting to the next company."

Complementary talents

Private equity teams in Africa are built on close and trusted partnerships, according to Phatisa joint managing partner Stuart Bradley. Phatisa is active throughout sub-Saharan Africa via its African Agriculture and Pan African Housing funds, with investments ranging from the production of palm oil, eggs and fertilisers, to affordable housing.

"The industry can be exceptionally demanding and this requires working together as a team to tackle the challenges. Truly successful private equity businesses are built upon solid personal relationships that have spanned decades," he says.

Bradley emphasises the importance of diverse but complementary talents in order to ensure a meaningful value-addition process at the portfolio-company level. "Phatisa has a diverse team from various countries and nationalities across Africa and globally. This specialised skill set adds enormous value to our investors and investments across the company."