



SAVCA
2021

Private Equity Industry Survey

Volume 3 - How are Private Equity firms
creating value and driving transformation

Insights into the Southern Africa Private
Equity Industry

Research
partner



About the survey

The SAVCA 2021 Private Equity Industry Survey is presented by SAVCA and EY. The survey was based on responses from over 50 Private Equity firms operating in Southern Africa. The survey covers analysis of the industry's strategic priorities, investment & divestment activity, fund raising, funds under management, the impact of private equity, BBBEE and the diversity of PE investment professionals. The data is based on annual calendar year data up to 31 December 2020. SAVCA reviews the reports prior to their public release.

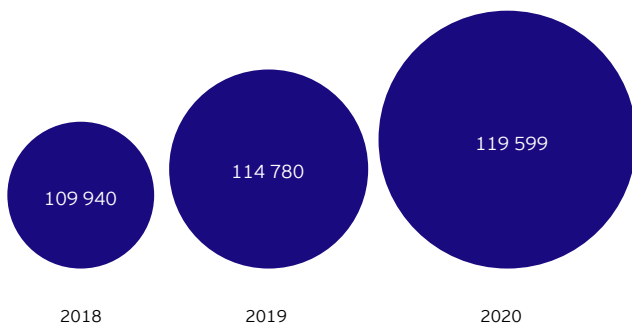
SAVCA does not have access to any of the individually completed surveys submitted to EY. While care has been taken in the compilation of the survey results, SAVCA and EY do not guarantee the reliability of its sources nor of the results presented. Any liability is disclaimed, including incidental or consequential damage arising from errors or omissions in this report.

01 Private Equity value creation

Basis of the analysis in this section

The analysis in this section is based on data submitted by the Private Equity (PE) firms with respect to the portfolio companies they have been invested in during the 2018 to 2020 period. Only like-for-like data over the 3-year period has been considered (i.e. data from portfolio companies disposed or acquired during 2018 to 2020 was not considered). The analysis is based on 93 portfolio companies across 24 PE funds.

Number of employees at PE firms' portfolio companies (2018-2020)

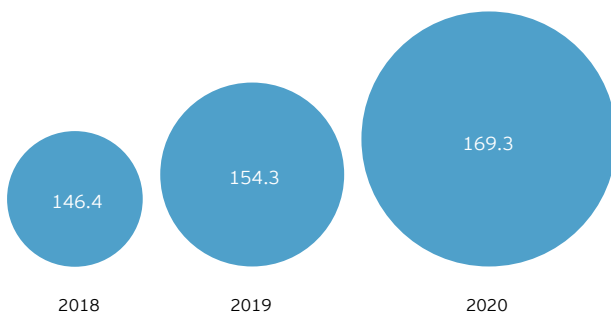


The number of employees increased by **4.4%** from 2018 to 2019 and increased by a further **4.2%** in 2020. The data indicates that, although anticipated, there wasn't a decline in the number of employees due to the impact of COVID-19 for these portfolio companies. The analysis is demonstrating that PE funds continue to increase the employment levels in their portfolio companies, despite the challenging environment in 2020 due to COVID-19.

In 2019, the number of portfolio companies that had increased employee levels was however only 48.4% of the portfolio companies that formed part of this analysis. While 16.5% had constant employee levels and 35.2% of portfolio companies had a decline in employee numbers.

In 2020, 38.5% of portfolio companies increased the number of employees, while 24.2% had constant levels and 37.4% of portfolio companies saw a decrease in the number of employees. There was thus an increase in the proportion of portfolio companies that had a decrease in the number of employees, which is expected due to COVID-19. It is however positive to highlight that the portfolio companies that had increases in the number of employees had a greater % increase than the % decrease in portfolio companies that experienced a decline.

Revenue generated by PE firms' portfolio companies (2018-2020) (R bn)



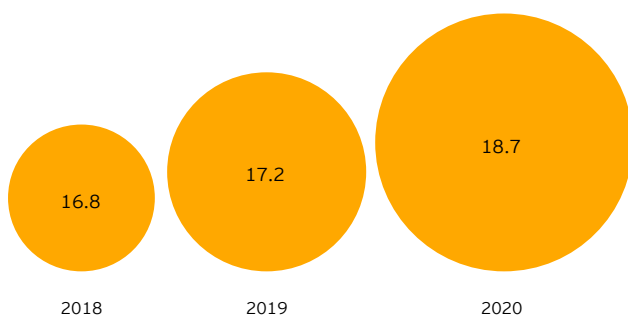
There was a **9.7% increase in revenues from portfolio companies from 2019 to 2020**, which was greater than the 5.4% increase from 2018 to 2019. This shows a very positive trend in portfolio companies greatly increasing revenues despite the challenges posed by COVID-19. This may be due to PE backed companies' management teams adapting more quickly and showing their entrepreneurial strength. Whether this growth can be sustained will be a key factor to consider going forward.

This revenue growth is particularly impressive when compared to the South African GDP contracting by 6.4% in 2020. This highlights the strong role of PE portfolio companies in the South African economy and the level of support offered by PE firms.

Of the 93 portfolio companies, **22 (almost ¼) saw an increase of greater than 20% in revenue in 2020**. It is thus also positive to see the high number of portfolio companies seeing strong growth in revenues.

However, the proportion of companies with revenue growth decreased in 2020 to 53.8% compared to 68.1% of portfolio companies increasing revenue in 2019.

EBITDA generated by PE firms' portfolio companies (2018-2020) (R bn)



Similarly to revenue growth, EBITDA growth was greater in 2020 (8.5%) than in 2019 (2.4%).

The proportion of portfolio companies growing EBITDA remained fairly consistent between 2019 and 2020 at c. 40%. The proportion of companies with EBITDA decreases was lower in 2020 at 49.5% compared to 52.7% in 2019 - again, showing the adaptability of the PE portfolio companies during COVID-19.

EBITDA margins of the portfolio companies averaged 11.5%, 11.1% and 11.0% across 2018, 2019 and 2020 respectively. This confirms the EBITDA growth has largely been driven by the increased revenues rather than cost savings due to COVID-19.

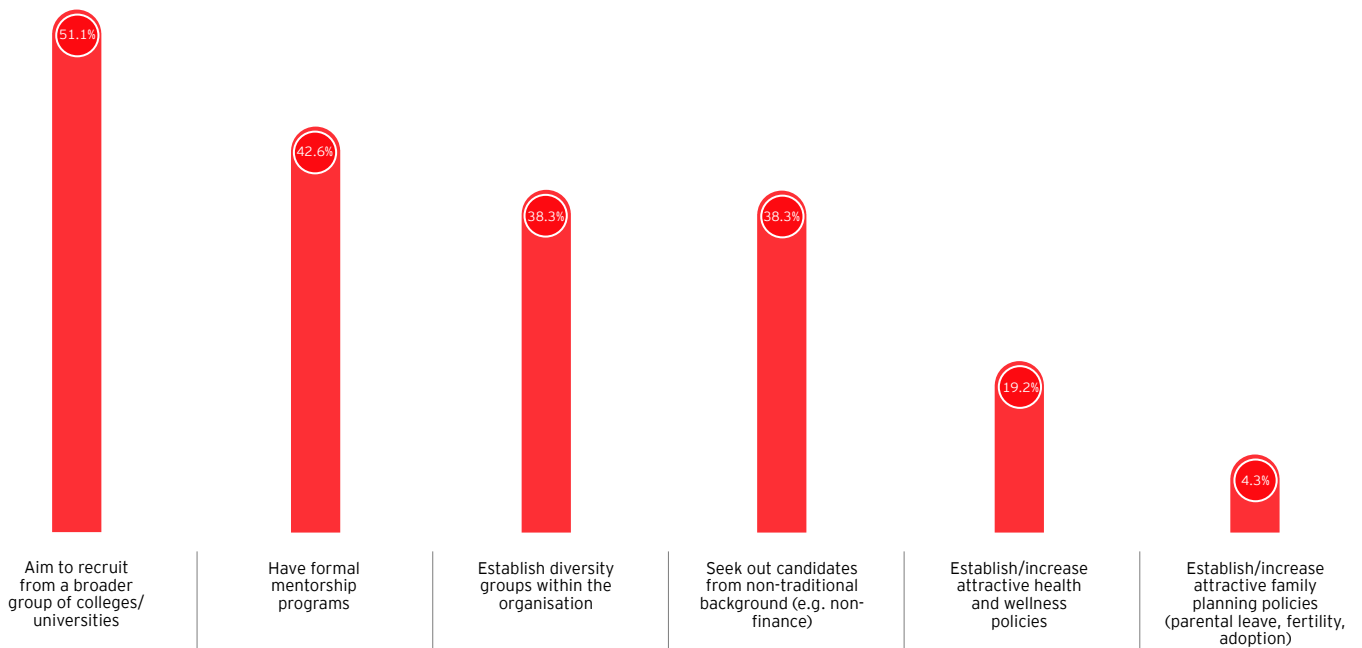
02

How are PE firms driving transformation within their teams?

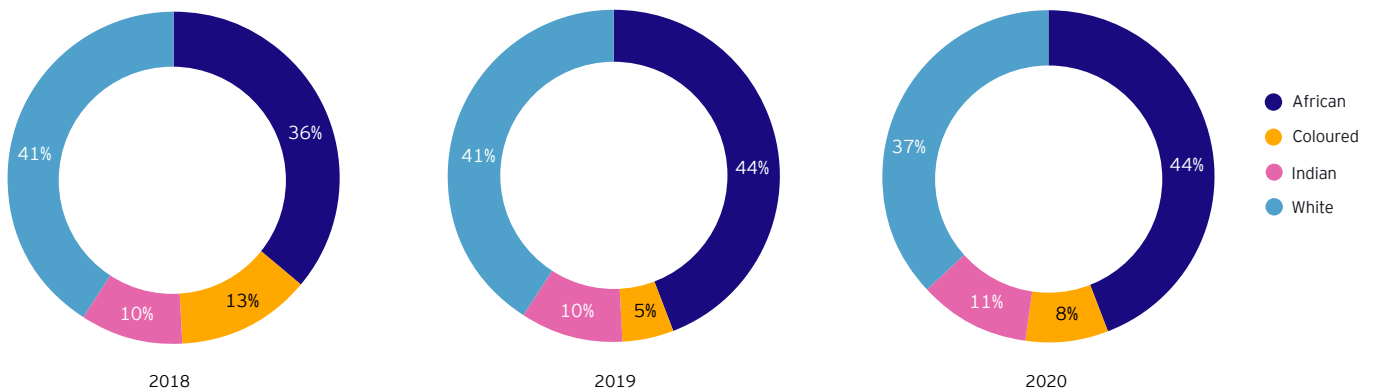
Has your PE firm set diversity targets?



What are your plans to increase diversity?



PE firm employee distribution by race - 2018 to 2020

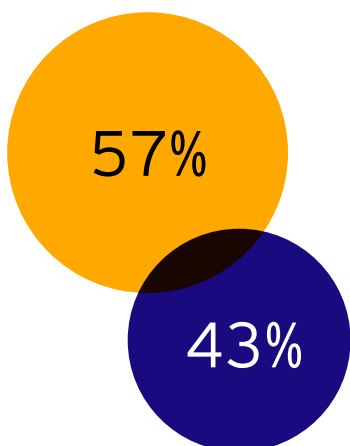


Note: Above analysis excludes PE firms' submissions which did not disclose a break-down and/or excluded undisclosed races.

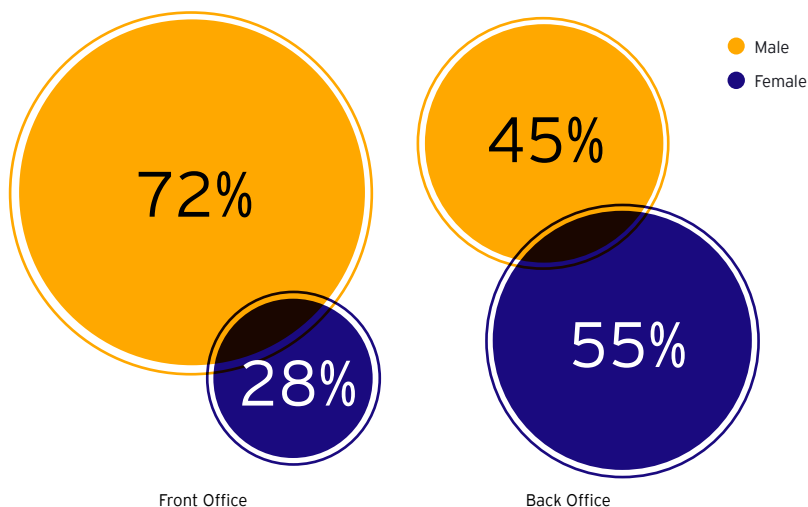
The private equity industry is driven by its people. The industry continued to diversify and transform in 2020.

PE firms' employee distribution by gender and role - 2020

PE firms people by gender, 2020



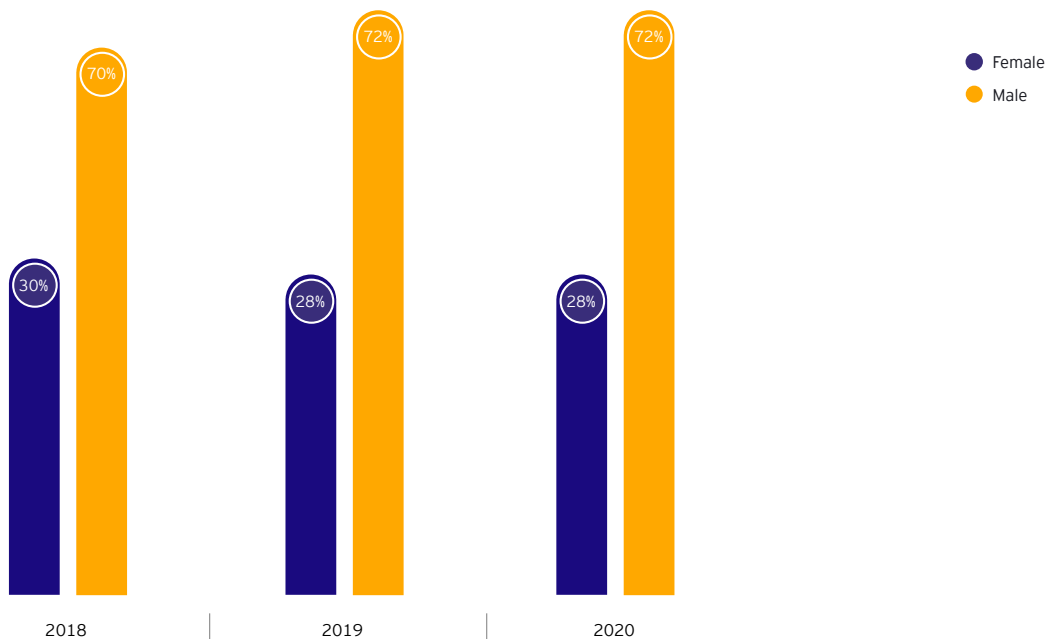
Front Office and Back Office by gender, 2020



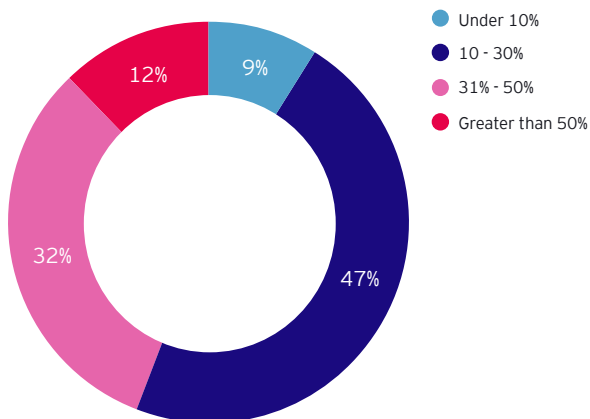
While the PE industry in South Africa continues to achieve greater diversity with a growing proportion of female employees, more can be done to achieve greater female representation of investment professionals (front office). This is however consistent with PE trends globally as reflected in the EY Global PE survey (shown on next page), which also reflects a much greater representation of female employees in back-office roles.

Gender distribution of PE firm investment professionals

Proportion of women investment professionals (front-office) in PE firms (SAVCA study)



Female front-office employees as a % of total - 2020 (SAVCA study)



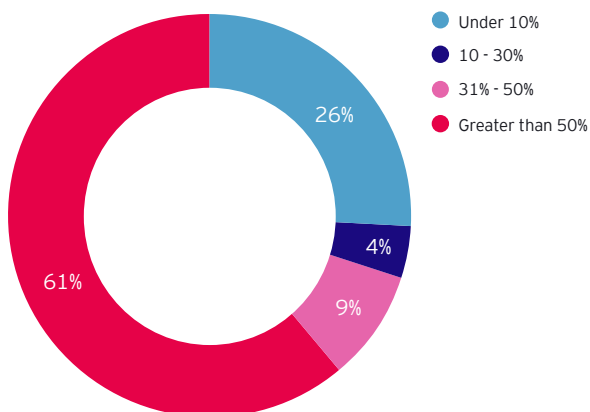
In comparing front-office gender diversity trends from the SAVCA survey to the EY Global PE survey (shown below), we noted that there was greater diversity in PE firms in the SAVCA survey, as highlighted by:

- ▶ A greater proportion of PE firms in Southern Africa with > 50% female representation in the front-office team (12% for SAVCA vs. 5% per the 2021 global PE survey released in Q1 2021); and
- ▶ A much greater proportion of PE firms in Southern Africa with a 31% to 50% female representation (32% for SAVCA vs. 8% per the 2021 global PE survey).

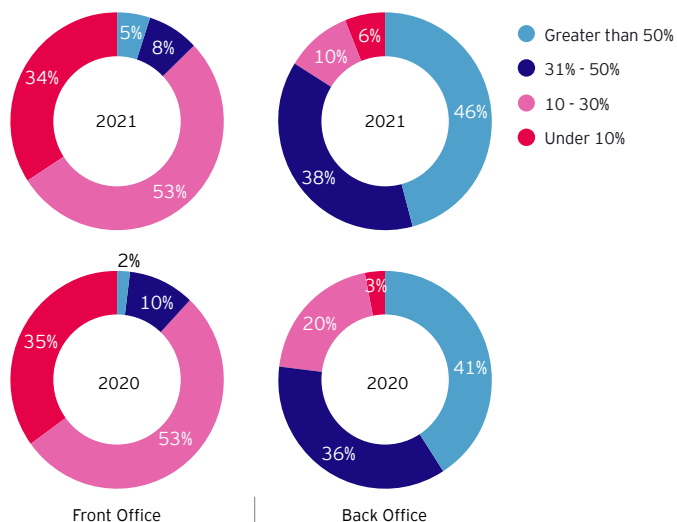
Although more needs to be done on gender diversity within front-office teams, Southern Africa is ahead of the global trends on gender representation within PE deal teams.

Female back-office employees as a % of total - 2020

Proportion of women in PE firms (SAVCA study)



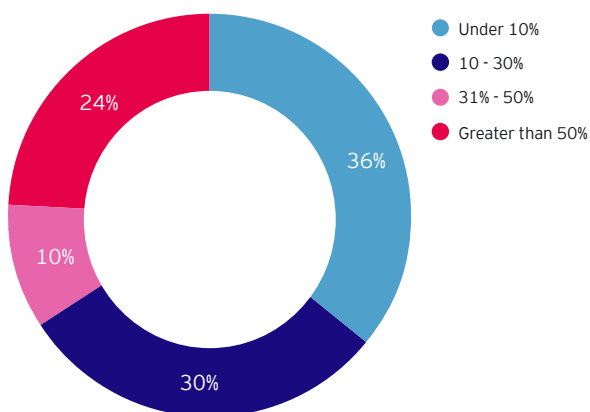
Proportion of women in PE firms (global study)



Source: EY Global PE survey

The level of female representation in back-office roles per the SAVCA survey for 2020 (position at the end of 2020) also showed much greater female representation than the global ratio per the EY Global PE survey. We do however note that there was a higher proportion (25%) of SAVCA survey respondents that had less than 10% females in back-office roles than per the global ratio (6% for the 2021 survey).

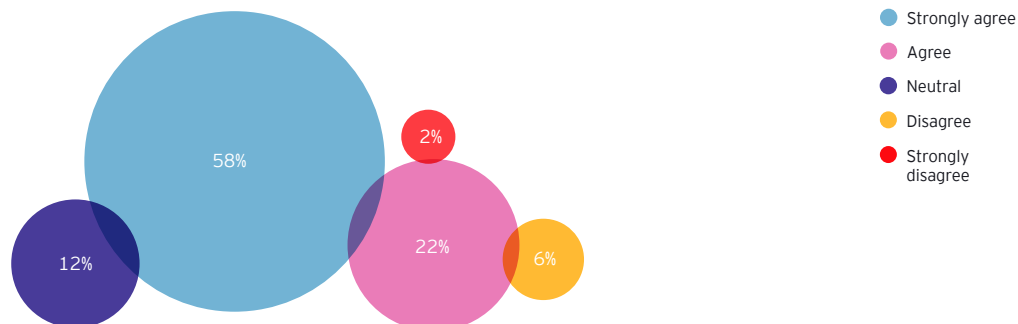
Female representation on PE boards (SAVCA survey)



While it is positive to see 34% of PE firms with boards of directors with > 30% female representation, there is still a lot more to be done to diversify boards given 36% of boards still had less than 10% female representation.

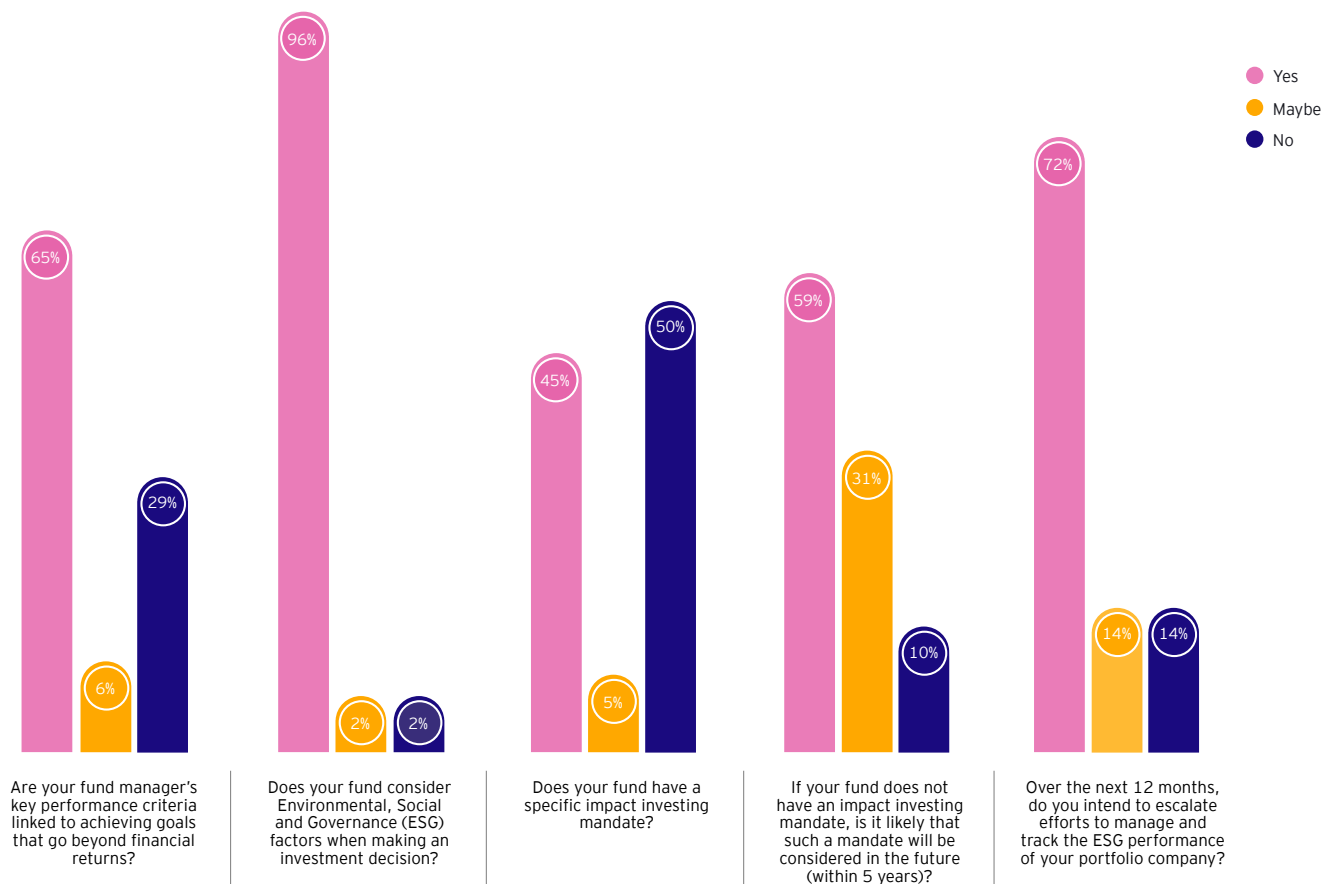
03 ESG and impact investing

Do you agree that the COVID-19 pandemic will meaningfully raise the profile of Environmental, Social and Governance (ESG) in the PE industry?



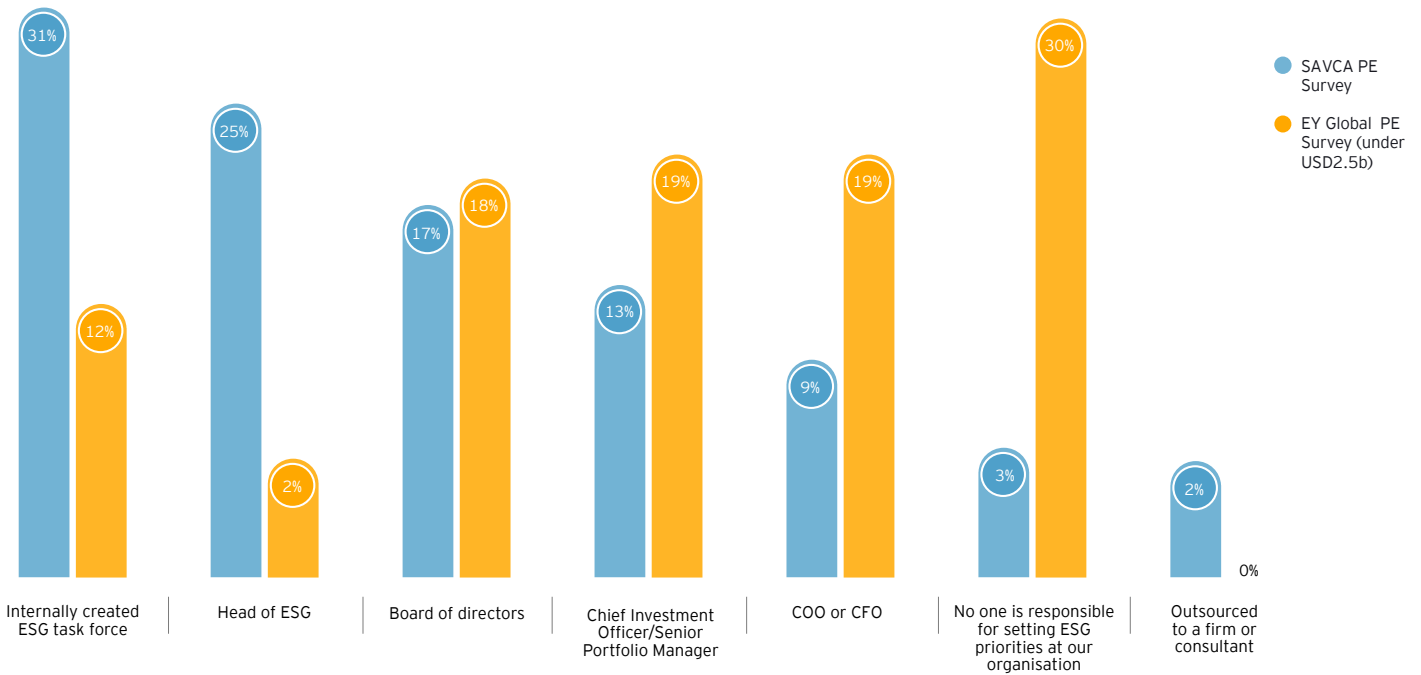
80% of respondents are of the view that the COVID-19 pandemic will raise the profile of ESG in the PE sector. This correlates with the increase in discussion around the importance of ESG in the sector, although further actions are needed to implement these beliefs and realise social and environmental impact while creating value.

Impact of ESG on investing mandates



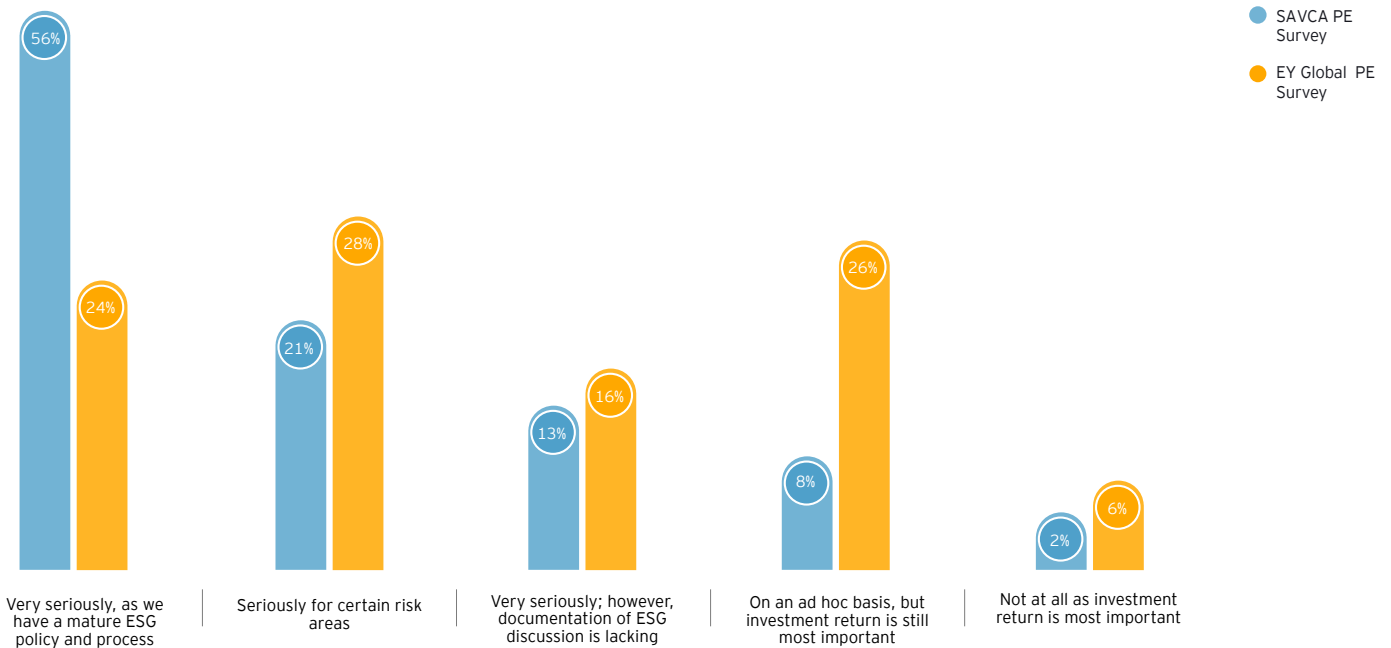
96% of PE firms consider ESG factors when making investment decisions, however, only 45% have specific impact investing mandates. The majority of PE firms (72%) intend on increasing efforts to manage and track performance against ESG metrics and factors that impact the performance of portfolio companies. Of the respondents whose funds do not have impact investing mandates, 59% are likely to consider implementing such mandates within the next 5 years.

Who is responsible for ESG priorities?



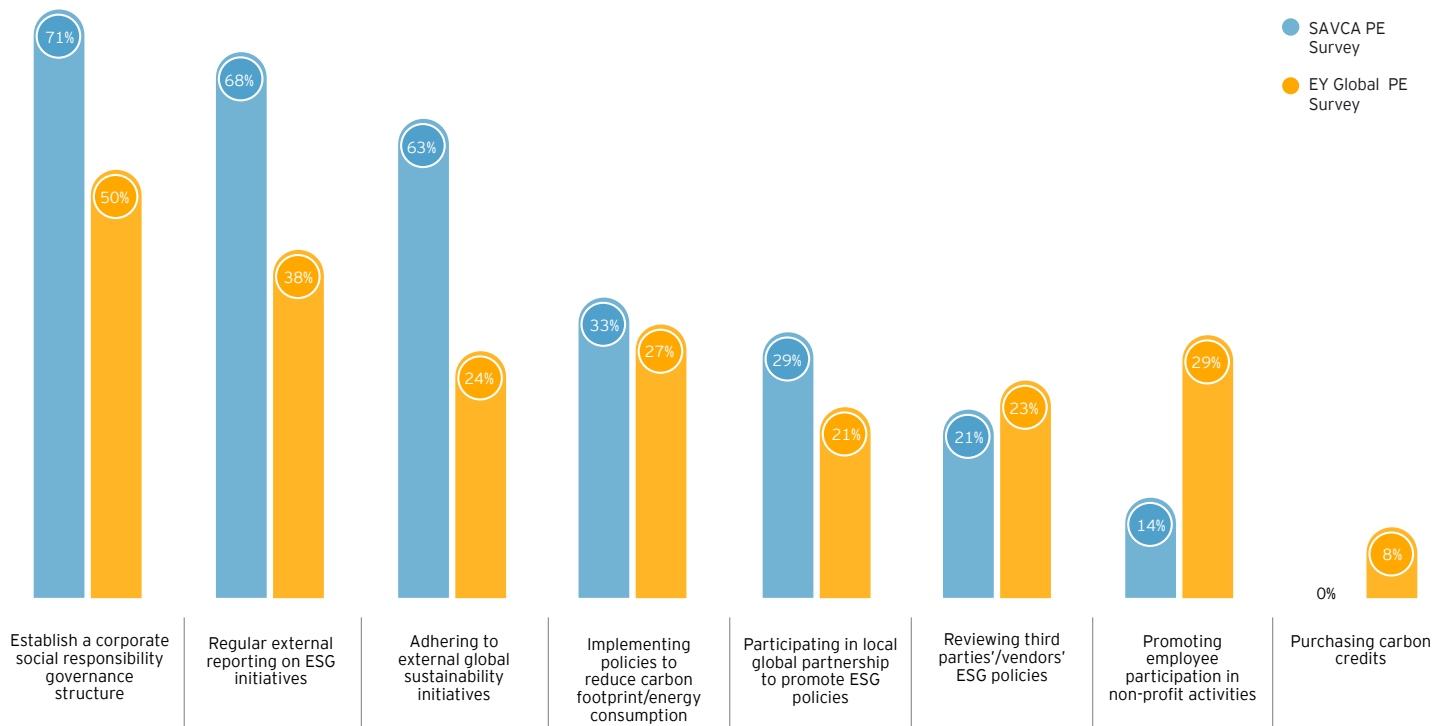
Southern African PE firms set ESG priorities mainly through an internally generated ESG task force (31%), head of ESG (25%) and board of directors (17%). In comparison, with PE firms globally, this responsibility falls predominantly with the COO/CFO (19%), CIO/senior portfolio manager (19%) and board of directors (18%). Interestingly, at 30% of global PE firms no one is responsible for setting ESG priorities, compared to only 2% at Southern African PE firms, thus showing that PE firms in Southern Africa are focused on ESG priorities.

How seriously are ESG risks and opportunities considered in the investment decision-making process?



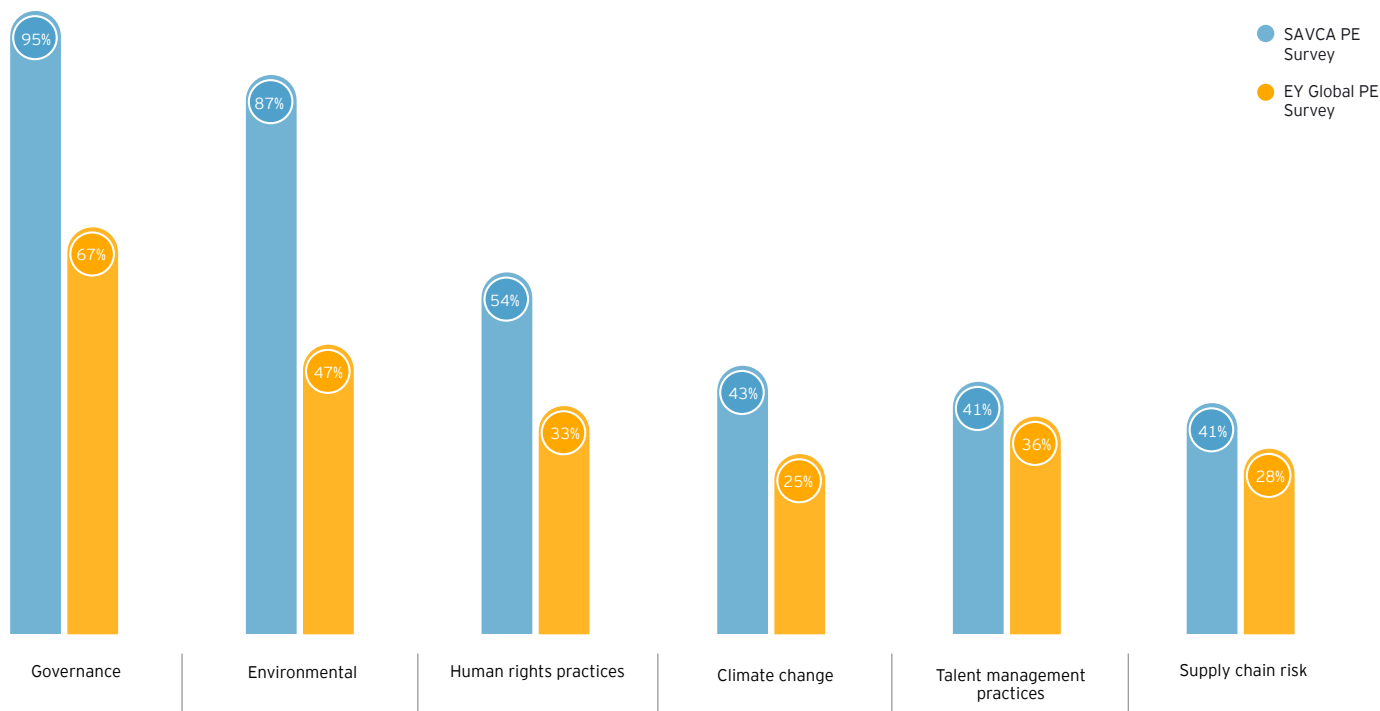
56% of Southern African PE firms consider ESG risk and opportunities very seriously in the investment decision-making process compared to 24% by Global PE firms. In contrast, 26% of global PE firms consider such risks and opportunities on an ad-hoc basis as investment return remains the most important consideration (8% in Southern African PE firms).

What are the components of your ESG policies?



Components of ESG policies vary across respondents with the top two for both Southern African and global PE firms being 1) establish a corporate social responsibility governance structure, and 2) regular external reporting on ESG initiatives. Interestingly, promoting employees' participation in non-profit activities featured fairly highly (29%) on global PE firms' ESG agenda but was lower for Southern African PE firms (14%).

What are the top ESG risks included in decision making?



The top two ESG risks included in decision making for both Southern African and global PE firms are Governance and Environmental. Human rights practices also featured highly for Southern African PE firms (54%), on the agenda for global PE firms (43%) compared to 25% in Southern Africa.

Thank you and what next?

Thank you to the PE firms that participated in this survey, without whom the survey and its findings would not have been possible.

This 3rd volume is the “How are PE firms creating value and driving transformation” volume and Volume 2 was the Fundraising, Investments, Exits and Funds Under Management Insights volume.

In Volume 3, we will look at the trends and views on ESG, and role that PE firms play in shaping the transformation of the Southern African economy, diversity within PE teams, value creation and other market insights.



Contact:

SAVCA

+27 11 268 0041

info@savca.co.za

savca.co.za

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. SAVCA represents in excess of R200 billion in assets under management through circa 180 members that form part of the private equity and venture capital ecosystem. SAVCA promotes the Southern Africa venture capital and private equity asset classes on a range of matters affecting the industry, providing relevant and insightful research, offering training on private equity and creating meaningful networking opportunities for industry players.



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