Catalyst

SA's quarterly Private Equity & Venture Capital magazine

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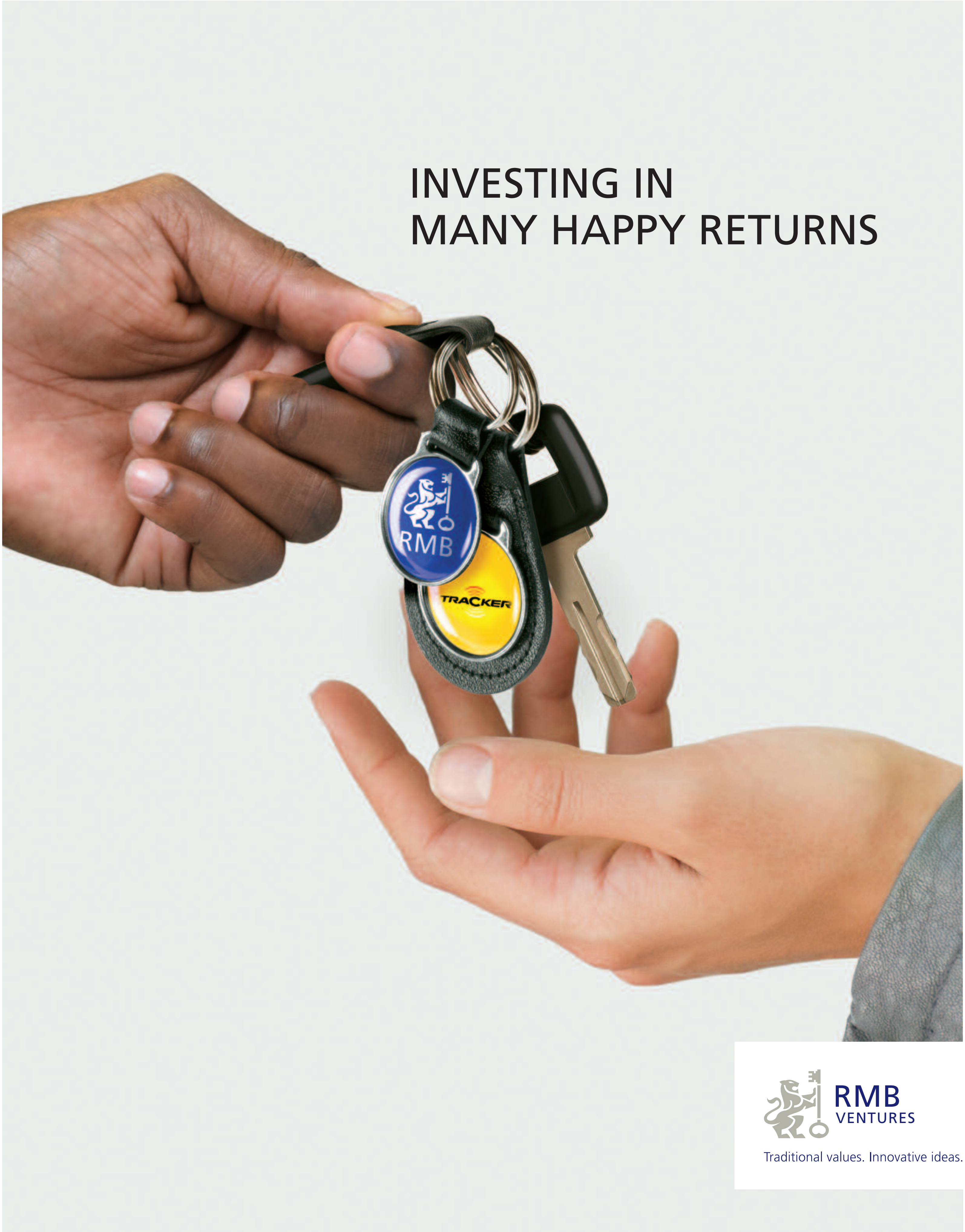
Tracking recovery in deal flow

CVC takes Virgin Active

Regulation highs and lows

African growth story gathers momentum



RMB invests R450-million in the purchase of Tracker, South Africa's leading vehicle tracking company.

RMB Ventures in a consortium with management and two other significant partners have acquired Tracker. Tracker has developed a range of highly sophisticated technologies since the 1990's and continues to innovate – making it a compelling investment for RMB Ventures. **For more information contact Eutychus Mbuthia on +27 11 282-8209, email eutychus.mbuthia@rmb.co.za or Andrew Aitken on +27 11 282-4658, email andrew.aitken@rmb.co.za**

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Thinking that can change your world

Catalyst

From the Editor's desk

The promising trickle of deal activity witnessed in the second quarter translated into the anticipated, and hoped for, steady stream of announcements during the third. But fundraising silence was deafening.

It's not unexpected to see the deal drought ending. Research released by Bain Capital points to a global industry sitting on almost one trillion dollars in dry powder. And UK-based research company Preqin reckons that funds raised in 2008 have a combined $204bn in dry powder to invest before these funds expire in the next year or so.

Locally many funds are sitting on large undrawn commitments too so industry watchers are hoping this will transform the stream into a deluge. However, this is tempered by an economic outlook that remains cloudy at best.

Top of the deal list for the quarter was Actis's buyout of Tracker, one of the country's "big three" vehicle tracking companies. Before news broke that Actis was looking to spin Savcio into Actom in the second quarter for roughly R4bn, it had been several years since a deal last broke the billion rand mark so another multibillion rand buyout-cum-restructuring comes like a shot of directly administered adrenaline. Size doesn't necessarily equal a smart deal but it does signal that players in the market are confident and that the expectation gap between buyers and sellers has narrowed sufficiently to bargain.

Another reason for the renewed sense of optimism relates to the debt markets, which have, according to Bain, stabilised over the first two quarters of 2011, allowing PE fund managers to start employing higher levels of leverage again – though pre-2008 levels will not be seen again anytime soon some degree of leverage is essential for attractive deals to be made.

The gloom that hung over the industry, when casting its gaze on the regulatory horizon, has started to lift as there are some signs (further relaxation of excon and retirement fund limits and some positive tax changes) that the message of private equity as an economic engine for growth and job creation is starting to find traction within government.

Of foremost concern, however, is the way Treasury has handled the notorious s45 of the Income Tax Act – which deals with intra-group transactions – and specifically the inclusion of s23k which gives with the one hand and takes a whole lot more with the other.

Paragraph 7 (a) provides treasury with discretionary power over the amount of debt to equity allowed in any given transaction. Surely this cannot pass constitutional muster?

Industry has been tight-lipped, no doubt plotting its strategy with caution, but such clear erosions of the hard-won free market principles that underpin the South African economy must be met with a carefully calibrated but equally unequivocal response from business. It is no coincidence that the strong political overtones of creeping central planning coincide with an increasingly cozy relationship with China. History is littered with examples of failed centralised economies and even the Chinese are having a hard time controlling their rapidly overheating engine.

There are some alarming parallels with the current economic, or political (because centralised planning is deeply political) path and that engineered by the grandfather of central planning the former Soviet Union, and nobody will need reminding of the hardship and suffering that Stalin's masses had to endure in the Gulags.

A comparative projection between present-day South Africa and the murderous foundations of the Soviet Union following the Bolshevik Revolution of 1917 may sound far-fetched and unnecessarily alarmist but the slope is often slipperier than we could ever anticipate. ◆

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When private equity firms lead a hunt for returns, it's not often they come back with a tracker as the trophy.

Tracker deal signals market recovery

That's exactly what happened in the standout deal of the quarter (and a strong candidate for higher accolades overall) when Actis announced that it had successfully snared one of the "big five" vehicle tracking companies in the Sub-Saharan region. It led a consortium in a US$434m (roughly R3,9bn), 100% management buy-out of Tracker, South Africa's largest vehicle tracking company and the name now as synonymous to car recovery as lip-ice is to the lip balm industry.

It is interesting to note that National Treasury's guidelines flowing from the Taxation Laws Amendment Bill No. 19 of 2011, as a response to the now infamous s45 impasse, seek to place a limit on the gearing used by private equity in such circumstances of 1 times debt to equity.

Remarkably, Actis might have been at the forefront of two multibillion rand deals in the same year if the competition authorities give its bid to spin Savcio into Actom the green light. (*Ed: this deal was still with the Competition Commission at the time of going to press*).

The transaction sees Remgro dispose of its 40% interest in Tracker to Actis while FirstRand restructures its investment to include RMB, with the former holding 10,14% and the latter 12,54% post implementation. The Mineworkers Investment Company (MIC) increases its stake in the business to 30% and management takes up 7,32% through a specially created trust.

When quizzed about the gearing used, Natalie Kolbe, Actis director and newly appointed tracker board member, said that Actis employed a conservative strategy of 50% debt to equity.

It is interesting to note that National Treasury's guidelines flowing from the Taxation Laws Amendment Bill (19 of 2011), as a response to the now infamous s45 impasse, seek to place a limit on the gearing used by private equity in such circumstances of 1 times debt to equity. During times of caution this might not raise much ire within the industry but it certainly questionable for the Treasury to dictate a private companies gearing ratio. The development of this regulation will be closely monitored – but it's thought this stricture will apply only to overseas financing arrangements.

This is not the first private equity deal in vehicle tracking and telematics space. Last year, Trafficmaster, the former dot-com darling vehicle tracking company, was bought by a San Francisco-based private equity group, Vector capital, for £73.2m.

There is clearly an attractive investment case to be made for the business as Kolbe explains.

"At its core the vehicle tracking business has good cash flows and a large client base, which creates an annuity-type cash flow."

It is also reliant on growth within the vehicle market and if the recent new car sales are anything to judge by then Actis may have timed this acquisition quite beautifully as NAAMSA (The National Association of Automobile Manufacturers of SA) released figures showing an increase of 18,9% year-on-year from October 2010.

Natalie Kolbe

Tracker is known for its vehicle recovery successes – it has achieved approximately 55,000 vehicle recoveries and over 10,000 arrests since its establishment in 1996, more than any other tracking company in South Africa. It is the only vehicle tracking company utilised by the South African Police Service.

But one gets the sense that it isn't this core business that really excites Kolbe. It's the innovative business that is being spun out of traditional vehicle tracking which promises the growth potential to really knock the lights out.

Kolbe says that as markets mature and succeed in bringing down vehicle theft and hijackings (and here she cites Brazil and South Africa as examples) vehicle tracking companies have been forced to innovate to retain relevance.

Some of these innovations being pioneered by tracker include behavioural insurance. In other words using the advanced data monitoring that vehicle tracking provides to create a customer profile for insurance companies.

"Something," she jokes, "that can actually have a negative reinforcing effect on bad drivers."

But for the majority this method of ensuring that better drivers pay less on their premiums is proving extremely attractive and sensible.

There's also the steady uptake of fleet management by smaller companies that previously felt fleet management options were only within reach of larger blue chips.

And finally there is development being done on cutting-edge services such as emergency road-side assistance at the push of a button. The tow-truck or repair company could then locate you via your GPS.

"In a dynamic industry, Tracker has demonstrated a consistent ability to innovate and provide relevant solutions to its customers. These qualities resonate strongly with RMB Ventures," says Eutychus Mbuthia, co-head of RMB Ventures.

The industry is also highly fragmented at the moment and, according to Kolbe, as it matures we will start to see an increase in consolidation. With its eye firmly on the full investment lifecycle, it would appear that Actis is positioning itself to take advantage of this envisaged consolidation at exit stage.

Actis was clearly the lead member of this consortium and as Kolbe points out it was it which initiated talks with Remgro some time ago.

"We've had a strong relationship with Remgro dating back to the Alexander Forbes deal in 2006. [Remgro] wasn't in the market to sell but we approached them with an attractive proposition."

A proposition that was too good to refuse as it turns out. ◆

While many consumers have been sweating over their finances, surprisingly, they've continued to count their calories and kilojoules burned too. And when you add the fact that private equity is starting to sniff around health club assets, the signals for the future appear slightly more robust than the pessimists would have us believe.

CVC flexes its guns

The announcement that Virgin Active will be taken into the hands of private equity players comes as no surprise. Some sort of deal has been in the offing for the past 16 months, but CVC Capital Partners won't mind the wait as the British-based private equiteers have saddled a rather promising horse in the shape of Sir Richard Branson's Virgin Active chain of gyms in the UK and Africa.

Gyms, fitness centres, health clubs, call them what you like, have always attracted private equity fund mangers looking to whip their funds into shape.

From Gold's Gym, the landmark California-based franchise featured in the 1977 box office hit "Pumping Iron" and which lists Arnold Schwarzenegger among its A-list clientele – acquired from private equity firm Brockway Moran & Partners, by Robert Rowling's TRT Holdings in 2004 for approximately US$158 million – to the more recent announcement by UK-based private equity group, BC Partners, looking to offload the Australian and Asian assets of the Fitness First gym chain (in a third round private equity deal!) it's clearly a treasured target.

Virgin Active Montana, Pretoria

In fact after the consolidation phase in the private health club sector of the mid-2000's it was estimated that roughly half of all UK gyms were owned by private equity firms. This did follow a period of sitting around and waiting during the financial collapse of 2008 but in general the health club business is considered to produce vigorous returns.

For one, the business model allows much-needed cash to flow back to the buy-out firm to repay debt. And most research indicates that people are becoming much more health conscious than a generation before, so future growth is a good bet. The final box that needs to be ticked is the quality of the asset because though growth is expected, during a recession, or near recession, the consumers' marginal propensity to spend is negatively impacted, so a quality club will have an advantage. Virgin Active ticks all three of these boxes.

It has a strong base in a well-developed market with steady cash flow, a growing base in a developing market locally with a strong growth trajectory, and the brand is considered to be a class leader in its sector, being the first gym in South Africa to offer a comprehensive range of health and lifestyle options to complement the traditional mix of cardio circuit, pool and weights. One can now choose to attend a yoga class, spinning, tae bo, and so on.

Matthew Bucknall, Chief Executive of Virgin Active is proud of the Club's growth story and points to deals recently bedded down as sign that he's not happy to stand still in this ultra competitive market.

"Since we started 11 years ago, Virgin Active has become the world's leading health club operator by operating a disciplined model that delivers real value to our members," explains Bucknall

According to Bucknall, the partnership between CVC and Virgin will support Virgin Active's growth in both existing and new regions. This will be delivered by the continuation of a successful club rollout programme and further targeted acquisitions, building upon the recent acquisition of Esporta in July 2011, which added 53 health and fitness clubs (including 20 racquets clubs) to the Virgin Active UK portfolio.

"We have exciting growth opportunities, not only in the UK following the Esporta acquisition, but also in all our other existing territories, and now also Asia-Pacific via the acquisition of the Australian Virgin Active clubs. [The] transaction brings in a new majority investor who will help accelerate the expansion of Virgin Active."

CVC is formidable in its own right with about US$40bn under management and this shone through as it ended up outperforming some heavyweight competitors for the prized asset, including the redoubtable KKR and Blackstone according to *The Guardian*.

CVC will hold a 51% stake in Virgin Active with Virgin holding the remaining a 49%, both before management shareholding.

"[CVC] brings a broad international network, has an excellent track record of building businesses, as well as valuable experience in the international leisure sector. At the same time, I am delighted that Virgin, which has played a central role in our success, will remain as a significant shareholder."

Founded in 1999, Virgin Active is one of the world's leading health club operators with 254 clubs (the world's largest being US-based 24 Hour Fitness with 420 clubs) and 1,1 million members across the U.K., South Africa, Italy, Iberia and Australia.

And it hasn't reported growth lower than double digits in all eleven years since, something CVC Senior Managing Director, Pev Hooper, is clearly looking to maintain.

"We've been impressed with the consistent and significant growth that Virgin Active has delivered since its launch, and we look forward to working with management and Virgin to support the future international development of the business," says Hooper.

Completion of the transaction is expected to take place during Q4 2011. CVC will be hoping that the debt-heavy global economy manages to gain a little fitness over the course of the next few years. ◆

In recognition of South Africa's economic position in Africa, legislative and policy changes have been adopted by the South Africa government over the period 2010-2011 to encourage direct foreign investments, including through private equity.

Government starts to reign in the red tape

By Lele Modise, Lulama Hene and Mogola Makola

The African private equity industry has, over the years, shown significant growth and resilience when compared to similar industries among emerging and developed markets.

Company law

The South African Companies Act, 2008 came into force on 1 May 2011 (the Companies Act). It includes, as one of its purposes, the encouragement of entrepreneurship and enterprise development by: simplifying the procedures for forming companies in South Africa; reducing the costs associated with the formalities of forming a company and maintaining its existence; and seeking to promote transparency and higher levels of corporate governance and accountability.

Exchange control regulations

To encourage foreign direct investment, exchange control regulations have been cautiously relaxed. Some of the relaxations most significant for the private

Modise

Makola

equity industry were introduced in 2010 and earlier this year. Consequently, retirement funds may now invest up to 35% of the retail assets under their management, while the underwritten policy business of long-term insurers may invest up to 25% of the retail assets that they manage. Institutional investors are also allowed to invest an additional 5% of their total retail assets by acquiring foreign denominated portfolio assets in Africa through foreign currency transfers from South Africa, or acquiring approved inward listed investments.

In the South African Reserve Bank's (SARB) exchange control circular 2/2011, issued early this year, it announced that qualifying headquarter companies would be treated, for exchange control purposes, as non-resident companies other than for their reporting obligations. The consequence of this announcement is that there is no longer a need for qualifying headquarter companies to obtain the SARB's approval on a deal by deal basis for transactions outside of the common monetary area, and that these qualifying companies now only have to acquire upfront approval for foreign investment and, thereafter, to adhere to their reporting obligations as required by the SARB (that is, provide annual reports on the fund's draw downs and realisations).

Taxation

Amendments to the South African Income Tax Act, 1962 (the ITA), which came into force at the beginning of this year, have the effect that qualifying headquarter companies will be entitled to tax relief in South Africa. In order for a company to qualify for the proposed tax relief, it must meet the requirements of the definitions of a "headquarter company" set out in the ITA.

In June 2011, the South African Treasury released the Draft Taxation Laws Amendment Bill, 2011 which proposed a moratorium on the use of s45 of the ITA (which is one of the significant tax provisions relied upon for many restructuring, mergers and acquisitions and private equity transactions), in respect to all disposals made on or after 3 June 2011. However, the Treasury revised its proposal in respect of s45 after extensive public consultation, which signified its commitment to ensuring that South African investment legislative policies are robust and take into account the investment industries outlook, in order to maintain a facilitative investment climate.

In the revised proposal which is contained in the Taxation Laws Amendment Bill No. 19 of 2011, Treasury seeks to introduce a section (s23K) that will control the deduction of interest incurred on debt raised, or secured, to fund the acquisition of assets in terms of restructuring transactions. This includes intragroup transactions (s45), amalgamation transactions (section 44) and liquidation transactions (s47).

The effect of the proposal is that interest associated with debt used to finance a reorganisation transaction or debt that refinances, or is substituted for debt that was used to fund a reorganization, will no longer be automatically deductible. Instead, the South African Revenue Service (SARS) may on application by an acquitting company (a transferee company contemplated in s45(1) or a holding company contemplated in s47(1) of the Income Tax Act) issue a directive permitting the deduction of the interest. In considering the application for the directive, SARS will take into account the amount of interest incurred by the acquiring company, and the amounts of interest incurred, received or accrued in respect of all debt instruments issued to fund a debt instrument in respect of which interest is incurred by the acquiring company. SARS will only issue the directive if it is satisfied, on the basis of criteria set out in regulations passed by the Minister of Finance, that the issuing of the directive will not be likely to lead to a significant reduction of the tax liability of all the parties who incur, receive or accrue interest in respect of the debt dealt with in the section. SARS may issue the directive subject to conditions and limitations.

Amounts (other than interest or dividends) received by the holder of a debt instrument, or share (other than an equity share) issued by a company that forms part of the same group of companies as one of the parties to an intra-group transaction, and the proceeds of which were used to fund or facilitate an intragroup transaction, will be exempt from tax in certain circumstances. The exemption will only apply to the extent that the amount is applied to settle the outstanding amounts in respect of the debt instrument or shares.

Financial Advisory and Intermediary Services Act ("FAIS Act")

The Financial Services Board (FSB) published a draft Specific Code of Conduct of Financial Services Providers and Representatives Conducting Financial Services Business with Professional Clients during June (the Specific Code). In it, the FSB recognises that certain types of clients do not require the same level of protection as is provided for in the FAIS Act. The FSB has also accepted that financial services providers rendering financial services to "sophisticated" clients would benefit from having the flexibility of operating under a more principle-based, rather than rules based, code of conduct without negatively impacting on such client's interest.

Under the current draft of the Specific Code, a private equity fund may qualify as a "professional client". If the current draft's definition of "professional client" is retained in the Specific Code, the implication will be that the investment advisors to such a private equity fund would only be required to comply with the new code in respect of financial services rendered to the fund and not the general code of conduct.

South Africa's private equity outlook

The legislative reforms introduced during the period 2010-2011 signify the government's recognition of South Africa's economic position in Africa, and its objective to remove what are considered to be significant barriers to South Africa's role as the gateway jurisdiction for private equity funds into the rest of Africa.

With the South African governments continued commitment to reforming investment policies, and Africa's attractive investment opportunities, such as its abundant natural resources, low asset valuations, and largely untapped consumer markets, we see potential for further growth of the South African private equity industry in the coming year. The South African private equity market continues to display ongoing resilience and has performed more positively than peer sectors abroad. We have recently seen this outlook displayed by proposed investment activities by large private equity funds into South Africa. ◆

Modise is a Partner: Private Equity, Hene an Associate and Makola a Partner: Tax, with Bowman Gilfillan.

A recent lecturing assignment as the course leader on an executive education programme in private equity (PE), organised by the Strathmore Business School (SBS) in Nairobi, Kenya, was an educational journey in more ways than one.

Strategy for Africa – Private equity maps the way

Troy Dyer

The impact of economic and political factors on business strategy in Africa was a theme in many of the lessons learnt.

First, the assignment highlighted the improving relative attractiveness of Africa as a business and investment opportunity for PE industry players. As developed western economies have endured a prolonged period of low growth, PE investors have increasingly turned to emerging markets in search of growth opportunities. This is well illustrated in PE investment trends in sub-Saharan Africa in recent years.

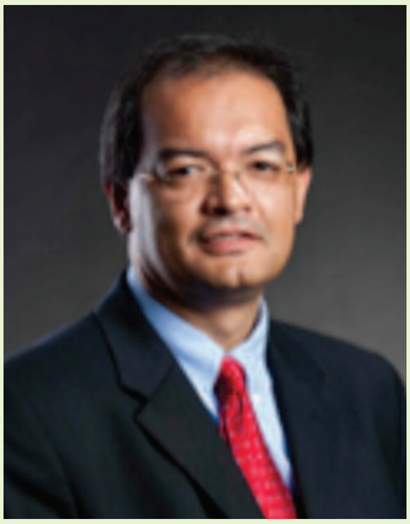
The overall trend is positive despite the setback caused by the global financial crisis two to three years ago. As reflected in surveys conducted by Emerging Markets Private Equity Association (Empea), there was a 65% decline from 2008 (US$2,6bn) to 2009 (US$0,9bn) in total funds raised from PE investors, and a 57% decline from 2008 (US$3,0bn) to 2009 (US$,1,3bn) in the level of PE investments made in investee companies.

Notwithstanding this decline, the general trend is that PE fund managers in sub-Saharan Africa are still achieving their business objectives. They are managing to raise funds from both their local and global investors, find suitable investment opportunities in line with their investment objectives, add value to their portfolio of investee companies through various strategic interventions, and exit from investments after earning target returns.

Based on Empea surveys in the 2009-2010 period, the top industry sectors attracting PE based investment were infrastructure, banking and financial services, industrial and manufacturing, services, and energy and natural resources. Together these sectors comprised over 75% of total PE investment during the period.

This success is achieved in the face of significant challenges in the business environment of PE fund managers. A key challenge is the region's exposure to political risk, as perceived by investors. Empea surveys in 2010 and 2011 indicate that the perception of PE investors that sub-Saharan Africa has a high exposure to political risk is one of the key factors that deter investors from the region.

Other factors deterring investors include the limited number of established PE fund managers, the below-optimal scale of investment opportunity, the challenging tax and regulatory environment, and poorly developed exit markets. In some way or another these



Dyer

other factors are all related to the political environment. The lesson is that greater political stability and support in each country, and in the region as whole, would be a major driver for increased foreign direct investment and improved economic development. The economic growth in East Africa is a positive example of this relationship.

A second lesson was based on the classroom interaction with the SBS delegates and programme speakers. They highlighted concerns which PE fund managers in East Africa have in investing in companies whose success may be due to their reliance on "politically exposed persons" or "PEPs," a term apparently in common use by business professionals in the region. In this respect, PE fund managers in East Africa may be ahead of their South African counterparts in their astute perception of the negative impact of reliance on political connections by their investee companies.

In South Africa the emphasis may still be on favouring politically connected individuals and relying on their assumed ability to convert influence into affluence. There is limited consideration of the risks these individuals may pose to a business they are involved in, for example, due to the possibility of corruption caused by exerting undue influence, or due to the transient nature of any legitimate influence they may have anyway.

On a positive note, the SA business landscape is showing signs of maturing as a democracy. Corporate governance and public scrutiny of business decisions are key drivers of change. The media has been a major player in highlighting cases of undue influence and bringing to the attention of the public the damage to the economy and broader society caused by the subversion of decision-making processes in business and public sector organizations.

Finally, in consulting with South African companies on their business and corporate strategies, there has been a clear trend in this last decade in their perception of business opportunities in Africa. Ten years ago, few developed SA companies considered the rest of Africa as a significant source of business expansion and investment opportunity. Five years ago, many SA companies were starting to formulate an Africa strategy as a potential source of growth. Today, almost every SA company with major growth aspirations is actively developing business expansion and investment opportunities across various parts of Africa. Countries mentioned during strategic management sessions with senior executives are diverse from a SA perspective. Sub-Saharan countries include Botswana, Angola, Mozambique, Namibia, Kenya, Ghana, Uganda, DRC and Nigeria.

There are positive and negative drivers of this trend. A positive driver is that many African economies are becoming more attractive in their own right, for example, due to improvements in urban centres, in the availability of information and communications technologies, and in education and skills levels. A negative driver cited by consulting clients is the perception that SA is becoming less attractive due to declining political and government policy support for business growth. Being keen observers of strategic developments in their business environment, PE investors, fund managers and investee companies map the way in their search for business opportunities across Africa. The question is whether SA will benefit or lose from this trend. ◆

Dyer CA(SA), MBA, CFA, is a strategy coach at Audax Ideas

(Note: A shortened version of this article first appeared in the October 2011 issue of Accountancy SA)

Forget for a second Africa's chequered past. Cast aside thoughts of banana republics, despots and dictators, and centuries of economic oppression.

Private Equity firms turn to Africa

The cradle of humanity is the world's second largest continent and the second most populous after Asia. It is a vast, relatively untapped, global market. And forecasts of a protracted financial winter setting in over the globe's traditional economic superpowers, with the resultant slowdown in investment opportunities and attendant fall in ROI's, all means that the pendulum, at long last, is starting to swing in Africa's favour, and you'd be well advised to keep up.

Private equity funds are expected to play an increasing role in investments flows into Africa in the next 12 months as they seek new growth opportunities outside the depressed markets of developed countries, according

According to EMPEA, an industry body, funds raised for sub-Saharan Private Equity strategies totalled US$1,499m in 2010 up 55% from the US$964m raised in 2009.

to Standard Bank's Brian Marshall, Director: Diversified Lending and Leverage.

Marshall says an increasing number of private equity firms are raising capital to invest in sub-Saharan Africa investment strategies and scout for deal opportunities.

"Opportunities in emerging markets in general and sub-Saharan Africa in particular are expected to fuel pipeline of deal activity in the next 12 months"

He says Standard Bank has been receiving a number of enquiries from several private equity firms seeking partnerships with financial institutions with sub-Saharan Africa presence.

And the bank is uniquely positioned to comment on activity , having recently been involved in some of the biggest deals involving private equity firms. It acted as debt co-ordinator and lender in the Actis-led acquisition of vehicle tracking company Tracker and also acted as co-debt underwriter in the Brait restructuring and acquisition of stakes in Pepkor and Premier. Other notable recent private equity deals involving Standard Bank include the acquisition of a stake in IHS (Nigeria) by a consortium of private equity investors and tower portfolios in Ghana and Tanzania by Helios Towers.

Though funds available to invest in Africa are still relatively small when compared with global funds and other emerging markets, an increase will be good for Africa as it will provide local firms with much needed capital. According to EMPEA, an industry body, funds raised for sub-Saharan Private Equity strategies totalled US$1,499m in 2010 up 55% from the US$964m raised in 2009. The EMPEA study shows that Emerging Markets and sub-Saharan Africa in particular, are claiming an increasing share of the private equity funding pie.

Marshall cites global private equity firm Carlyle's announcement earlier this year of the launch of its sub Saharan Africa Fund and the recent acquisition by CVC of a controlling stake in Virgin Active as an indication of the interest by large international private equity funds in the region.

Carlyle, which has about $17 billion worth of assets under its management in emerging markets, more than $106 billion globally, and which is actively looking for assets in Africa, said the sub Saharan Fund will be managed from Johannesburg and Lagos. The group has established a team to conduct buyout and growth capital investments in Sub-Saharan Africa. Furthermore Helios Investment Partners, a leading Pan African fund, recently announced the closing of its second successful fund which raised a total of US$ 900m in commitments from investors.

"Opportunities in emerging markets in general and sub-Saharan Africa in particular are expected to fuel pipeline of deal activity in the next 12 months," explains Marshal. "We are already seeing through our presence in Africa a

Brian Marshall

flurry of activity on the continent from private equity firms which are increasingly showing an interest to invest in sub-Saharan African assets. Africa has turned into the place to be for many investors seeking growth markets.

"This should be good news for the growth of Africa's private sector and is happening at a time when many companies are expanding and in need of capital to fund that growth as well as finding efficient ways to manage their businesses. Private equity is all about enhancing efficiencies in business, taking them to the next level of growth and governance, and delivering solid returns to investors in the process."

Marshall's comments come as new deal opportunities, especially in developed countries, have been showing signs of drying up from the latter part of 2011 due to the on-going economic slowdown and the seeming inability of European leaders to get t grips with the sovereign debt crisis in the Eurozone.

This global economic uncertainty and market volatility are spurring renewed interest in Africa because of its expected higher GDP growth rates. According to the IMF, the sub-Saharan Africa region is expected to achieve real GDP growth of 5,9% in 2012, well ahead of most developed economies.

"The combination of accelerating and diversified economic growth, favourable demographic trends, substantial infrastructure requirements and improved macroeconomic and political stability offers a compelling investment thesis for investors in private equity. Furthermore, private equity investment in the region is underpenetrated relative to other emerging markets and sets the scene for an increased level of activity on the continent."

"Consequently, we have seen an increasing level of activity from local and international private equity funds which have shown a lot of interest in African assets," says Marshall. ◆

Signs of life have started to flow through the veins of the local private equity industry. Players are talking about deals, looking at Africa, anxiously seeking investment opportunities for piles of dry powder.

Preqin research paints mottled picture

So it's all roses then, right? Not exactly. A mountain of data released by Preqin, a UK-based private equity research unit, in October for the third quarter of 2011 points to a staggered global recovery underway, with the US and Europe still labouring while Asia and the emerging markets continue to make up lost ground.

Preqin's quarterly deals data shows 674 private equity-backed buyouts deals worth an aggregate US$60,6bn were announced in Q3 2011, a 23% decrease in value from the previous quarter's total of $78,7bn.

However, aggregate deal value during the third quarter was 7% larger than the first quarter of 2011, when 659 deals were announced with a combined value of $56,8bn, and surpasses the average 2010 quarterly figure of $54,5bn.


Manuel Carvalho

Even the hottest sector of private equity activity, exits, are down with 254 announced valued at an aggregate $56.2bn, 54% down from the record total of over $120bn in Q2 2011.

This decrease has been primarily due to a marked absence of exits valued at over $1bn, with only 12 exits in this size range during Q3 2011, and no exits valued at over $5bn, while the previous quarter saw 21 exits at over $1bn and three exits at over $5bn.

The biggest buyout deal of the quarter was the announced US$6,3bn acquisition of Kinetic Concepts by a consortium comprising Apax Partners, CPP Investment Board and Public Sector Pension Investment Board in July 2011. This deal is the largest private equity buyout in the post-Lehman era, and was announced before the recent wave of market uncertainty.

But the numbers are skewed appreciably by the North American share of global deal activity. There were 365 buyouts in North America during the quarter, accounting for $29,9bn in aggregate deal value, 49% of the global total.

This was followed closely by European buyouts, which totalled $22,8bn in value during the quarter, a 30% decrease from the 246 deals worth $32,3bn in Q2 2011.

The good news for private equity fund managers focusing on emerging markets and Africa in particular is that Asia and the "Rest of World" witnessed an 11% increase in aggregate deal value in Q3 2011, with $8bn announced, up from $7,2bn in Q2 2011.

Preqin's Manuel Carvalho, Manager Private Equity Deals, cautions against looking at the research in isolation.

> **Even the hottest sector of private equity activity, exits, are down with 254 announced valued at an aggregate $56.2bn, 54% down from the record total of over $120bn in Q2 2011.**

"While there has been a significant decline in deal flow, it is important to note that overall buyout activity in Q3 2011 remains up 7% from Q1 2011," Carvalho points out, "and surpasses the average 2010 figure of $54,5bn per quarter, while exit activity is at the levels witnessed in mid-2010, and well above the levels seen in late 2008 and 2009."

Carvalho believes that, though the mega-deals of yore may still be some years away, the small to medium-cap deals are very much in vogue as a result.

. . . significantly, Asia and the "rest of the World" managed to attract as much funding ($11bn) as Europe, though they are both still a long way behind North America ($22,5bn).

"The latter part of the quarter has seen a notable slowdown in large-cap deal flow, with uncertainty and tightening debt markets leading to an absence of deals and exits valued at over $1bn. In response to this, the small-cap buyout sector has taken an increasingly prominent position, with deals valued at less than $250m representing almost three-quarters of the number of deals announced during the quarter."

Fundraising is equally depressed at the moment and, significantly, Asia and the "rest of the World" managed to attract as much funding ($11bn) as Europe, though they are both still a long way behind North America ($22,5bn).

97 private equity funds reached a final close during the quarter, raising an aggregate $44,8bn.

Buyout funds raised the most capital, with 19 funds raising an aggregate $14,4bn.

Helen Kenyon, Senior Manager at Preqin, says they haven't picked up a change of attitude towards the investment class over the medium-term, despite the slowdown in fund-raising.

"Private equity fundraising was extremely challenging in the third quarter of 2011, with September a particularly slow month for fundraising; just $8,9bn was raised by the 33 funds to close that month," says Kenyon.

"While recent market uncertainty and declines in deal flow have had an impact on the investment plans of institutional investors towards private equity in the immediate term, few have changed their plans for investing in the asset class over the next 12-18 months. Two-thirds of investors participating in each of two studies of investors conducted in June-July and in August-September intend to make new commitments to private equity funds in the following 12 months."

According to Kenyon this suggests that, though investors are currently approaching new private equity investments with extreme caution, "most intend to remain active in the coming months and over the longer term."

Of particular concern for South African fund managers will be the fall in "Unlisted Infrastructure Fundraising" during the quarter 2011. Two infrastructure funds reached a final close with $1,6bn in commitments and 11 infrastructure funds held interim closes.

P2Brasil was, by far, the larger of the two funds to close in Q3 having raised US$1,1bn and invests – primarily in Brazil – in greenfield, brownfield and secondary stage assets in a variety of sectors.

It has been another slow quarter in terms of the number of unlisted infrastructure funds reaching a final close, but Preqin data suggests that there is good momentum within the current market with 30 funds reaching an interim close in the first three quarters of 2011, raising $11,4bn towards their fundraising targets.

The majority of these funds are new to the market and targeting fresh investor capital. These vehicles are likely to be on the fundraising trail for some time and hold additional interim closes before reaching a final close. Investor appetite for infrastructure funds and assets is as high as ever, with 70% of participants in our recent investor study stating plans to invest in the asset class in some capacity over the coming 12 months. 22% of investors expect to invest in multiple infrastructure funds during this period."

There is one bright light in all of this and it points to heightened activity across all sectors as an important deadline looms for managers who raised funds in 2008.

GPs that closed their funds in 2008 still have a combined $204bn in dry powder to invest from these vehicles. As the average private equity fund investment period is five years (real estate funds are the exception), these GPs will be under a considerable amount of pressure to invest both to avoid exercising clauses to extend the agreed investment period and to provide timely returns on capital.

A record $679bn was raised by the 1,308 funds that closed in 2008 but there are examples of funds that closed during the boom year that have avoided investments completely until this year.

"In comparison to the pre-crisis boom period, recent years have been characterized by private equity fund managers delaying their investments for longer than before," comments Preqin's Alex Jones. "Due to the wider economic conditions and constriction of the deal market, managers are understandably showing more caution in deploying capital.

There is one bright light in all of this and it points to heightened activity across all sectors as an important deadline looms for managers who raised funds in 2008.

"The fast-approaching end to their funds investment period is potentially a cause for concern for those GPs that have deferred deal making; however the availability of substantial levels of capital in reserve means that, should market conditions stabilize, the industry could see a repeat of the flurry of deals and exit activity that took place throughout 2010 as managers put this cash to work and realize their investments." ◆

National news

SAVCA AGM: The SAVCA AGM took place in October and the following were elected onto the SAVCA Board: Nazeem Martin - Business Partners Ltd (re-elected); Kuhle Kunene - Pan African Private Equity (re-elected); Emile du Toit - Harith Fund Managers (re-elected); Richard Flett - Horizon Equity Partners (re-elected); Alton Solomons - Sanlam Private Equity and Gary Boyd - Ethos Private Equity. Prof Eli Talmor of the London Business School and Chairman of its Coller Institute of Private Equity was the key note speaker and presented on the development of the secondary market in Private Equity.

The FT Business, South African Private Equity Association (SAVCA) and the Emerging Markets Private Equity Association (EMPEA) Private Equity in Southern Africa conference will be held at the Hilton Hotel in Sandton on February 1, 2012.

African Infrastructure Investment Managers, the joint venture between Macquarie Group of Australia and OMIGSA, recently closed a US$500 million fund. Ethos, IHS, Trinitas and Vantage are all still looking to close.

International round-up

Private equity funds in sub-Saharan Africa need to change their fundraising strategy if they are to keep up with the growth in the rest of the emerging markets, according to figures released by the **Emerging Markets Private Equity Association (EMPEA)** in September, which point towards significant gains in fundraising over the first half of this year; growth that is partly attributed to increased participation of investors from within the emerging markets. China and Latin America, particularly, which drove most of the recorded growth, are tapping local sources. Funds dedicated for investment in China, India and Brazil collectively drew 70% of capital raised in emerging markets between January and June. China on its own raised 45% of the funds. A statement from EMPEA indicated that this shift towards local sources, coupled with sustained interest from the developed world, delivered US$22,6bn for 89 funds in the first six months of this year. This was close to the $23,5bn raised in 2010.

Comrades in arms? The Russian private-equity unit being set up by President Dmitry Medvedev is in talks with a Chinese group about making joint investments according to **Bloomberg**. The new joint fund would co-invest in deals "that benefit from the Russia-China relationship and Russia-China trade." Russia's government writes Bloomberg, which will provide about US$10bn in the next five years to the Direct Investment Fund, aims to attract an additional US$50bn of co-investment from foreign buyout firms, sovereign wealth funds and companies seeking to expand in the country. Medvedev announced the creation of the fund in January to attract foreign investment amid efforts to deepen capital markets and wean Russia's economy off its reliance on oil, natural gas and metals exports.

Returns on private equity have surpassed the public market over the long-term, a new academic paper shows. The paper by Robert Harris, Tim Jenkinson, and Steven N. Kaplan, titled "*Private Equity Performance: What Do We Know?*" focuses on performance data as of March 2011 for US buyout and venture capital funds from Burgiss, Venture Economics, Preqin, and Cambridge Associates, considering implications for private equity performance.

The Australian observes that local fund managers are getting twitchy about the country's tax regime as evidence starts to mount that private equity funds are citing this as a reason not invest further in the country. For example, one of the largest pension funds in the US, the California Public Employees' Retirement System fund, which has $US33,6bn ($34,2bn) invested in private equity across the world, has chosen not to increase its exposure to Australia in the past couple of years. Crikey mate.

Bloomberg reports that Henry Kravis, co-founder of KKR & Co, said private-equity deals are becoming more expensive as the reluctance of banks and investors to lend drives up borrowing costs. "As the debt markets tighten and the cost of capital goes up, something has got to give," Kravis said at the Bloomberg Dealmakers Summit in New York late September. Ominously for the industry he said, "You just have to pay more."

The International Finance Corporation, which has a long-standing commitment to developing the private equity asset class in Emerging Markets (EMs) is approaching ten years of experience within this sector and released a fascinating report this year that will go a long way to debunk some popular myths regarding countries classified as high risk.

Based on its experience and analysis of data from over 90 funds holding over 800 companies, the IFC came to some remarkable conclusions, such as "Significant growth-oriented PE opportunities are available beyond the small number of countries in which most EMPE investments are currently concentrated. Economic forecasts suggest that the EMs will continue to grow for the foreseeable future, supporting growth-based PE. The returns on Emerging Market Private Equity (EMPE) are driven by growth and efficiency rather than leverage or multiple expansion. There appear to be diversification benefits in EMPE related to its focus on domestic growth, low leverage and different industry coverage relative to listed markets. Many of the risks of EMPE are over-stated and we provide data which places these risks in perspective."

PRIVATE EQUITY DEALS Q1 – Q3 2011 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Disposal by	Horizon Equity Partners to Iress Market Technology	Peresys		R375m	Jan 9
Acquisition by	Agri-Vie	Hygrotech		not disclosed	Feb 18
Acquisition by	Acorn General Fund One	33,98% of Grassroots Group		not disclosed	Feb 24
Acquisition by	Capital Partners (Brait SA) from Pepkor	24,6% stake in Pepkor plus a further 10,3% through purchase of pref shares	Rand Merchant Bank; Cliffe Dekker Hofmeyr; M Partners	R4,18bn + R671m	Mar 3
Acquisition by	Brait SA from Premier Foods	49,9% stake in Premier Foods	Rand Merchant Bank; Cliffe Dekker Hofmeyr; M Partners	R1,1bn	Mar 3
Acquisition by	Standard Chartered Private Equity	39.77% stake in Afrifresh	Bowman Gilfillan	not disclosed	Mar 8
Acquisition by	Inspired Evolution	25% stake in Abagold		R52,5m	Mar 28
Acquisition by Q1	Theomac Investments (Spirit Capital)	86,4% of Fibre Wound	Werksmans	not disclosed	not announced
Acquisition by	Marlow	significant stake in DNAlysis Biotechnology	Marlow	not disclosed	Apr 1
Disposal by	Old Mutual to Titan Nominees	20,52% stake in Pepkor	Rand Merchant Bank; Java Capital	R3,62bn	Apr 18
Disposal by	Capital Africa and South Africa Private Equity Turst III (Brait) to Titan Nominees	20,52% stake in Pepkor	Rand Merchant Bank; Java Capital	R3,62bn	Apr 18
Disposal by	Medu Capital to Titan Nominees	5,97m shares (3.75%) in Pepkor	Rand Merchant Bank	R661m	Apr 18
Acquisition by	Pinebridge Gateway Partners	significant minority stake in Thuthuka Group	Bowman Gilfillan	not disclosed	Jun 1
Disposal by	HBD Venture Capital to Visa	25.65% of Fundamo	Edward Nathan Sonnenbergs	$28,2m	Jun 10
Acquisition by	Targe CapitaHed consortium	30% stake in MDA Property Systems		not disclosed	Jun 10
Disposal by	AVI to consortium consisiting of key management members, RMB Ventures and Pan-African Equity Fund 1	Denny Mushrooms	Rand Merchant Bank; Standard Bank; McPherson Kruger; Tabacks	R263,5m	Jul 13
Acquisition by	Ethos Private Equity and certain existing shareholders from Univestal Industries minorities	457 919 126 shares not already held in Universal Industries	Java Capital; Grant Thornton; Webber Wentzel; Java Capital	R1,14bn	Aug 1
Acquisition by	CVC Capital Partners	51% stake in Virgin Active	Freshfields Bruckhaus Deringer; Webber Wentzel	not disclosed	Aug 23
Acquisition by	Acorn General Fund One from Bounty Brands	30% indirect stake in Saint Pie		not disclosed	Aug 26
Acquisition by	Actis from Remgro	34,44% stake in Tracker	Merchantec Capital; Rand Merchant Bank; Cliffe Dekker Hofmeyr; Webber Wentzel; PWC	R1,34bn	Sep 20
Acquisition by	Tracker management and Actis from FirstRand	7% and 6,11% stake in Tracker respectively	Rand Merchant Bank; Merchantec Capital; Cliffe Dekker Hofmeyr; Webber Wentzel	R273m + R238,29m	Sep 20
Acquisition by	Medu Capital	62% stake in IWC		not disclosed	Sep 30

PRIVATE EQUITY DEALS Q1 – Q3 2011 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED VALUE	DATE
Africa	Disposal by	Dutch Shell Plc of the majority of it's downstream businesses in Africa to Helios Investment partners and Vitol		$1bn	Feb 19
Africa	Investment by	Capital International Private Equity Funds in Eaton Towers to expand its tower-sharing business in Africa	Bowman Gilfillan	$150m	Sep 19
Africa	Joint Venture	Oppenheimer family and Temasek : Tana Africa (PE Fund)	Standard Chartered Bank	$300m	Aug 5
Africa	Funding	Eaton Towers secured PE funding from Capital International Private Equity Funds to expand it's Africa tower-sharing business		$150m	Sep 19
Botswana	Acquisition by	African Development Corporation of a 20% stake in ABC Holdings (BancABC)		€9,7m	Mar 15
Ghana	Investment by	Aureos in Bio-Plastics		$5.35m	Jun 16
Ghana	Investment by	Aureos Africa Health Fund in C&J Medicare		$4,5m	Jul 28
Kenya	Acquisition by	African Development Corporation of a 25.1% stake in Resolution Health East Africa	Webber Wentzel; Coulson Harney in Assoc. with Bowman Gilfillan	KES184m	Jan 13
Mauritania	Investment by	Advanced Finance and Investment Group in Drill Corp Sahara		$8m	Sep 8
Nigeria	Acquisition by	Helios Investment Partners and Adlevo Capital of a 67% stake in Interswitch	FT Advisors; KPMG; Roland Berger Strategy Consultants; FCMB Capital Markets; Debevoise & Plimpton LLP; Aelex	$110m	Jan 4
Nigeria	Equity Investment by	Investec Asset Management, the International Finance Corporation and the Netherlands Development Finance Company (FMO) in HIS Nigeria		$79m	Feb 17
Nigeria	Re-Capitalisation	MOA between Union Bank of Nigeria Plc and the African Capital Alliance Consortium		$750m	Mar 23
Rwanda	Acquisition by	Kaizen Venture Partners of a controlling stake in Caferwa SARL		not disclosed	May 13
Tanzania	Acquisition by	Principal Investments division of HSBC and Satya Capital of a stake in Chemi and Cotex Industries		not disclosed	Feb 16
Uganda	Investment by	TLG Capital in Quality Chemicals Industries, raising total stake to 12,5% shareholding		not disclosed	Jul 12