Catalyst

SA's quarterly Private Equity & Venture Capital magazine

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PE Deal of the Year 2020

Private equity's patient capital to the fore

Private equity pursuing divestiture opportunity

FROM THE EDITOR'S DESK

When I'm old and dying, I plan to look back on my life and say, "Wow, that was an adventure," not, "Wow, I sure have felt safe". The words of Tom Preston Virna, the co-founder of GetUp!, really resonate with the attitude of most entrepreneurs that I've had the pleasure of meeting.

There's a certain streak that runs through the slightly mad men and women who forgo the safety of salaried employment to cast away from safe harbours and venture out into new lands, where 'there be dragons'. It's the story of grit and determination, the stuff that really fuels economic growth, creating something new where once there was nothing, and solving for public problems. And it's something that I have seen play itself out through the COVID-19 pandemic of 2020, in abundance.

Of course, it also helps to have deep-pocketed, and experienced, equity partners who can help steer these businesses through uncharted waters. The crisis has revealed the strength and resolve of the private equity model, which has risen to the surface.

Some deals done at the top of cycles come full circle and make great comeback stories, such as the Edcon Retailability transaction, while other deals reflect the evolving and ever-changing terrain of business, buying and building the assets that will create the bedrock of our economy in the future, such as Actis' acquisition of Octotel and RSAWeb. The annual edition allows us to press pause and reflect on the entrepreneurs and their equity partners who manage to take the pandemic and the politics of this tumultuous country in their stride, as they steer their businesses towards sustained long-term growth and prosperity.

Along with the healthcare workers, these entrepreneurs are our country's true heroes. And we celebrate them and hope that government starts to realise that it should be doing everything in its power to make South Africa the preferred destination to build, grow and exit great businesses, as we chart a way out of this pandemic-induced economic crisis. ◆

Michael Avery

Contents

Catalyst

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This is the 16th year in which the Gold Medal is awarded for the Private Equity Deal of the Year. And nothing comes close to the sort of disruption that COVID-19 presented dealmakers in 2020. Nominations were received from advisory firms which, together with nominations from the DealMakers editorial team, were passed on to an Independent Selection Panel, headed by Bernard Swanepoel and consisting of Naspers SA CEO, Phuthi Mahanyele-Dabengwa and businesswoman, Funke Ighodaro.

Acquisition of Peregrine by Capitalworks

The Johannesburg Stock Exchange is in the midst of a delisting crisis.

And Capitalworks take private of publicly traded financial services firm Peregrine touches on the core of the problem, according to CEO and Peregrine Founder, Robert Katz. The cost benefit of remaining listed just doesn't stack up.

The diversified financial services group, which includes wealth manager Citadel, asset managers Peregrine Capital and UK-based Stenham, and corporate finance advisory firm Java Capital, announced a 7% increase in ongoing segmental earnings to R348m in its most recent annual results for 2020, but the delisting of the Group, after 22 years on the JSE, is a significant moment in the Group's history.

The R4,2bn offer to qualifying shareholders presented an option to elect to receive a cash consideration of R21 per share and/or a leveraged re-investment option through the subscription of shares in one of Capitalworks' buyout vehicles (InvestCo share consideration offer, priced at R17.40 per offer share). The attractive structure of the offer resulted in approval from 99.9% of shareholders with the reinvestment election, which will see benefits from the support of Capitalworks as a key anchor shareholder, oversubscribed.

"The costs of listing are high," says Katz, "and especially for a company our size. It's not only the JSE, it's the Companies Act as well, which we have to abide by and there are a lot of costs in the system which, if we were unlisted, we wouldn't be having to bear. I'll give you an example. Three Independent non-executives on the audit committee, for a company our size, it's a cost we have to bear. We have to print and produce annual financial statements which have to go out in printed form, which are expensive to produce. Time spent on the market is a lot of time. It's a case of the responsibilities of a listed company, and the costs of those responsibilities are expensive when you are not issuing scrip, which is one of the main reasons you are listed, to acquire other businesses or as a form of funding. The JSE is not unaware of what we are saying. They can see the statistics, and they can see a lot of companies delisting from the JSE, I'm sure for much of the same reasons, and I'm sure they are not standing still."

Garth Willis, principal of Capitalworks, believes that the value proposition and rationale for the deal goes much deeper than simply stripping out listing costs though.

"It's a business that we've been tracking for a long period of time," says Willis. "We see wealth management as being an exciting place to invest and the Citadel offering, in particular… Through our research, we'd identified that as being highly client centric with an incredibly strong focus on relationships with the underlying clients, which is something that is common to us at Capitalworks."

Relationships are one thing, but Willis stresses that one has to be able to deliver a compelling value proposition to clients.


Robert Katz

"Part of our research around Citadel, in particular, was its investment returns and its investment returns, net of costs. And what we saw there was a business that had an established track record and a very strong management team."

"The trick with the public to private [deal] is it's one thing to identify a value play. It's another thing to be able to put a value proposition in front of institutional shareholders that they find compelling enough to actually accept," says Willis.

"The point of success in this transaction was offering existing shareholders the option to either take cash off the table, or to reinvest alongside us. A lot of it was about being able to identify ways of unlocking value that couldn't be achieved in the public market. And that goes far beyond just taking the listing costs off the income statement. Those are a bit of a burden that I would say is a very small contributor to the overall value

Garth Willis

proposition. The fundamental strategy that we saw was that within Citadel, the management team was the outlier in the period and in the broader stable, in that it was the one management team that didn't have ownership in its own business. And we saw the ability to convert a profit participation into equity as being something that would enable us, as a private equity investor, to be very aligned with the underlying management team, in much the same way that the other stable businesses are."

And very importantly, that it would align Citadel management with the success and ongoing wealth creation of Citadel's clients.

"So, overall, that's why we courted Peregrine and ultimately launched the offer on the 13th of March. We gathered around the boardroom table in order to sign the various documents, and the pandemic was just on us and we were all working out how to celebrate this momentous signing of our deal through face masks, elbow taps, or whether we should just settle into our various corners of the rooms. That was quite an awkward moment, for a moment that was meant to be exciting."

On the outlook and possible exit strategy, Katz is philosophical.

"Nothing is as good as you hope it will be, and I'm hopeful that South Africa will be great, and nothing is quite as bad as you expect." ◆

Local Advisers

Financial Advisers: One Capital, Java Capital
Sponsors: Java Capital, Deloitte
Legal Advisers: Cliffe Dekker Hofmeyr, Werksmans, Webber Wentzel
Transactional Support Services: KPMG, PwC and Deloitte

Comment from the Independent Panel:

The panel liked this deal, as it has all the ingredients of a successful PE deal. Peregrine has a resilient business model, attracting significant fund inflows and, importantly, generating strong cashflows. The Scheme and General Offer were proposed concurrently, but the panel found the leveraged re-investment option afforded to Peregrine shareholders to be a novel and innovative approach. This also enabled the group to maintain its BEE ownership element, whilst facilitating approximately R250m of value transfer to the BEE partner, comprising a cash component and the reinvestment option into InvestCo. Treating all shareholders fairly in this step will ensure alignment in future.

PICK OF THE BEST (IN ALPHABETICAL ORDER)

Actis' acquisition of Octotel and RSAWeb

In October 2020, Actis, via its Neoma Africa fund, entered into a number of agreements to acquire a controlling interest in Octotel, a local fibre-to-the-home operator, and a non-controlling interest in RSAWeb, an internet service provider. Caxton and CTP Publishers and Printers and the Pembani Remgro Infrastructure Fund have fully exited their respective positions in the two entities. The investment into this high growth Digital Infrastructure asset was valued at R2,3bn.

Actis' principal David Cooke reveals that Actis has been looking at this space for quite a while.

"Over the last couple of years, as a private equity investor across emerging markets, we've identified that we're on the cusp of what some would call a broad digital infrastructure revolution," explains Cooke. "And we have made some considerable investments in data centres in Asia, China, Korea, and indeed in Africa, where we've invested in a data centre business in Nigeria."

Indeed, Actis has ambitions to put significant capital behind this to create a Pan African data centre platform, which includes the broad ecosystem of digital infrastructure – not only the data centres, but everything that enables digital connectivity, from towers to fibre.

"That got us to cast our eyes over what was happening in different corners of the world, in those elements of digital infrastructure." And that all coincided with the founders of Octotel, Internet entrepreneurs Rob Gilmour and Mark Slingsby, having conversations with their institutional backers, Caxton and Pembani, as they were looking for new growth capital.

"When the opportunity came to us in those conversations with those shareholders who, at the time, had appointed Rand Merchant Bank to explore options for them, we jumped at it. This was all just before COVID,"explains Cooke.


David Cooke

Fortunately for Actis, COVID acted as an accelerant to the existing fire of digital transformation sweeping across society. But it did present some challenges from a due diligence perspective.

"We've been using forms of digital communication, whether it's Zoom or Teams and things, for quite some time. I start every week with some form of a video call with my colleagues from Lagos to Nairobi and Cairo, and other parts of the world. But the thought of doing a full due diligence over this format or medium, that was very challenging at first. It's interesting, we're having this debate a lot across our business in some respects, actually. It's changed the way we will do due diligence, some aspects of legal and tax, financial due diligence, where arguably some face-to-face meetings or advice, for example, is less relevant. Of course, the human interaction of how you're getting to know your future partners is different."

On the exit front, Cooke explains that Actis has modelled some scenarios that will likely see further consolidation in a fragmented space with up to 30 fibre players currently. Ultimately, with the view of exiting to another scale industry player or a pension fund investor, who is looking for the classic infrastructure play with strong cash flows and the stable cash flow generation that these businesses provide. But that is still some way down the line.

For now, Gilmour and Slingsby will remain as shareholders and will continue to lead the existing management teams, and Actis will support the entrepreneur founders in continuing to grow out the business and surf the COVID digital wave. ◆

Local Advisers

Financial Adviser: Rand Merchant Bank
Sponsor: AcaciaCap Advisors
Legal Advisers: Webber Wentzel, Fluxmans
Transactional Support Services: EY, BDO and Deloitte

Metier Capital Growth Fund II and Retailability acquisition of Edgars

The saga of fashion retailer, Edcon, has left a trail of lessons in its wake.

Taken private in a highly leveraged R25bn (US$3,5bn at the time) buyout by Bain in 2007, Edcon struggled to grow at a fast enough rate to pay down debt.

Former CEO, Bernie Brookes told investors in 2016 that Edcon had been "living beyond its means…." But Investec Chief Economist Brian Kantor also picked up that the deal was doomed somewhat by poor structuring, especially with regard to Tax.

The retailer limped along and started to show promising signs that a self-help turnaround strategy initiated under CEO Grant Pattison, who was appointed in January 2018, might prove a saving grace.

In March of 2019, Pattison announced that Edcon had concluded its recapitalisation deal with the Public Investment Corporation (the PIC) on behalf of its client, the Unemployment Insurance Fund (the UIF) and participating landlords, which resulted in the implementation of a recapitalisation programme, committing to the contribution of new cash commitments and rent reductions totalling approximately R2,7bn into the Group.

The recapitalisation resulted in the removal of all of Edcon's interest-bearing debt, and introduced a new group structure and set of shareholders.

In February 2020, just before South Africa's retailers were plunged into a COVID-induced lockdown nightmare, Edcon offloaded its 167-store stationery chain, CNA, to a consortium led by JSE-listed and Mauritian-based Astoria Investments for an undisclosed amount.

Then COVID struck and Pattison broke down in tears on a call to investors, as he saw his dream of resolving the Edcon crisis shredded by the pandemic.

Edcon was placed under business rescue in April 2020. The plan approved was for the sale of parts of the company, including the Edgars business.

Retailability bought Legit from Edcon for R637m in 2016, and clearly made a success of that deal as they returned to buy more of the business – having bought Legit when it was loss-making. Retailability, a fashion retailer and holding company, owns the brands Legit, Beaver Canoe and Style, and operates in over 460 stores across South Africa, Namibia, Botswana, Lesotho, and eSwatini.

Retailability, backed by Metier, saw the potential of the brand and took the opportunity to acquire a significant portion of the Edgars business in South Africa, Botswana, eSwatini, Lesotho and Namibia at a favourable price of R1bn. The deal gives Retailability access to more of the middle to upper end of the mass market.

Grant Howarth, director and principal at Metier, in support of the

Capital Growth Funds, believes that the fundamental challenge faced by Retailability in Edgars is the turnaround of its merchandising function, to enable the brand to regain its relevance in the eyes of the South African consumer and stem market share losses.

"We believe that the Retailability team, with its entrepreneurial culture and dynamic trading mindset, has the expertise and track record to achieve this turnaround, given their experience in successfully integrating Legit after acquiring it from Edcon, and their track record of market share gains over the last five years," explains Howarth.

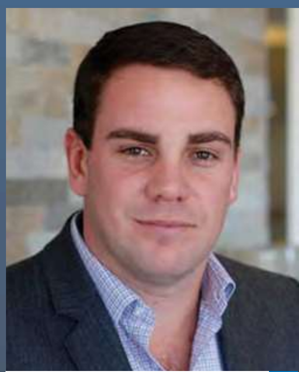
Howarth believes that the impact of COVID on the regional shopping mall and department stores will be minimised by Edgars diversification.

"Larger malls have had a larger decrease in foot traffic, compared with smaller regional and strip malls, but still contribute the majority of turnover in South African retail so will remain a focus area for Edgars," says Howarth. "The Edgars business is made up of roughly just over 130 stores, of which only ten are in super-regional malls, with a solid representation in CBDs and smaller regional towns and metropolitan malls, meaning that the Edgars footprint is well diversified across Southern Africa. Retailability also has three other chains in Legit, Beaver Canoe, and Style, which have approximately 450 stores and are concentrated outside of the super-regional and larger malls, with a strong presence in smaller malls, high streets and strip malls across Southern Africa. These chains have been steadily gaining market share over the last five years, and management will apply the insights and experience gained in these divisions to support the turnaround of Edgars."

What happens now to the sustainable cotton cluster agreements?

"The sustainable cotton cluster agreements entered into by Edcon had two key objectives, being the sustainability of cotton supply and the support of the textile industry in Southern Africa – both of these objectives are core to Retailability's strategy, culture and ethos. Retailability, including Edgars, currently sources approximately 45% of all inputs from local manufacturers. This has been, and will always be, a key strategic pillar for Retailability. Once we have completed the integration of Edgars and delivered on the turnaround plan, Retailability will re-engage with the cotton cluster."

Howarth believes that, at its core, Retailability's strengths lie in its entrepreneurial culture, flexibility and speed of decision-making, which allow it to take advantage of opportunities as and when they arise.


Grant Howarth

"The opportunity to acquire Edgars arose directly as a result of the impact of COVID and Edcon being placed into business rescue. This has both prolonged our targeted holding period for Retailability, to allow time for the Edgars turnaround strategy to be implemented and deliver its results, and increased our alternatives for exit which could now include an IPO, given the targeted size and scale of Retailability in the next 18-24 months." ◆

Local Advisers

Financial Adviser: Matuson Associates (BR Practitioners)
Legal Advisers: Cliffe Dekker Hofmeyr and ENSafrica

Criteria used for the selection of the shortlist for Private Equity Deal of the Year:

- An asset with good private equity characteristics: a cashflow generative business and able to service an appropriate level of debt; a business model that is resilient to competitor action and downturns in the economic cycle; a strong management team that is well aligned with shareholders, and capable of managing a private equity balance sheet; predictable capex requirements that can be appropriately funded.
- Deal size is a factor to filter deals, but plays a limited role for acquisitions. It does carry more weight for disposals.
- Potential/actual value creation – was the asset acquired at an attractive multiple? If the deal is a disposal, was it sold at an attractive price? What is the estimated times money back and/or internal rate of return?

There is limited information available in the public domain on private equity deals, and even somewhat educated guess work doesn't provide all answers in all instances.

Patient capital to the fore

Forecasts may tell you a great deal about the forecaster, but they tell you nothing about the future, or so says Warren Buffett.

But with 2021 seeing COVID vaccines roll out across the world, businesses and whole economies move from their immediate response to the pandemic, to putting in place the levers for recovery, ahead of preparing for the next normal, whatever that is.

And there will be various opportunities and challenges within that for private equity investors. The fundamental principles which drive private equity investment strategy, such as investing in high quality assets, partnering with strong management teams and focus on exit strategies, are expected to support private equity, remaining a resilient asset class and certainly supporting the post COVID-19 economic recovery, which is so important in South Africa right now.

John Bellew

Active management has come to the fore during the pandemic. Private equity, the asset class that has patient capital, is often what is needed to weather economic storms such as the COVID-induced economic cyclone.

Catalyst spoke to John Bellew, Head of Private Equity at Bowmans; Langa Madonko, SAVCA Board member and Deputy President of ABSIP, the Association of Black Securities and Investment Professionals; and John Geel, Senior Managing Director at FTI Consulting, about what the industry and investors can learn from the events of 2020 that will shape the asset class in 2021.

"I do think that in March and the initial Lockdown, we saw a definite drop off in activity," says Bellew. "We saw some deals continuing. Those were deals that really had a strategic imperative for the buyer. And it was a much more long-term view taken by the buyer. I guess the prime example of that would be the Adcock acquisition of Plush (Professional Leather Care, announced in March 2020). We also saw managers delving into their portfolio companies, trying to deal with banks, trying to adjust strategy, which meant that the deal environment did dip."

But from about October, Bellew says the Bowmans team started seeing a marked uptick in deal activity and new briefs.

" And I think there were a couple of reasons for that," says Bellew. "I think that there were some good buying opportunities that were thrown up, companies that potentially needed cash. There were some restructurings that we became involved with. And then there were some African deals. I think a lot of the deals that we've been involved with do tend to take a longer-term view and tend to be companies where, perhaps, there's been less impact from the current pandemic. And, you know, that's the rear view mirror. I think the year ahead is looking much more promising from a different perspective, and I'm actually quite bullish for 2021."

> "...the year ahead is looking much more promising from a different perspective and I'm actually quite bullish for 2021." Bellew

While Bellew is bullish for the year ahead, the deal execution environment has shifted markedly with remote working, travel restrictions and everything that is attached to this new normal of COVID-19, and it has not only impacted on General Partners' ability to engage with investors like LPs, but their portfolio companies too.

Madonko explains that adapting to this operating environment has brought with it a significant number of challenges.

"I think in the act of transacting, you actually want to have those face-to-face interactions," says Madonko. "You also want to have, for lack of a better term, some interactions that are of a social nature to get to fully understand the chemistry behind the team. You want also to understand fully the nuances of the businesses, but the human interaction is a key part of the ability of the fund manager to capital raise. Numerous interactions are important to explain the strategy, how you intend on rolling out your philosophy, and what you're investing in. And we had to go virtual. While, it does allow interactions, it's not the same, in terms of the significance of human touch. So it did, in many instances, set back some of the fund managers who had not yet started to engage with potential funders. They found themselves in a position where they were thoroughly on the back foot. But for some, it really began the introductions. As John said, transactions were concluded on the basis of the traction already in place and, in some instances, also to attract capital on the basis of historical relations."

Geel was surprised at how quickly the industry adapted to the new normal of conducting parts of due diligence digitally via Zoom or Teams.

"In the latter half of 2020, I think there was a new norm, and people got used to doing due diligence. By way of example, I spoke to one of the large international investment banks, who said things like drones were now being used for site visits, things that he never would have done before," explains Geel.

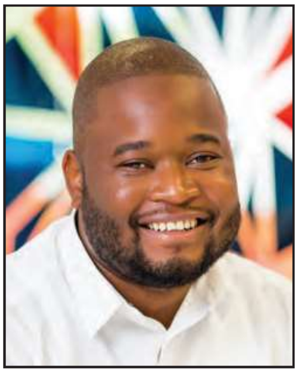
"And for the financial and legal due diligences, the technology that's now available for remote due diligence, such as the development of data room processes, makes that process so much easier that if we were forced to go back into remote due diligence again, I don't think that would be a hiccup any longer, in terms of holding up processes," says Geel.

Bellew jokes that he is probably at that stage in his career where people invite him to give history lessons more than advice, because he's been around since the very beginning of the private equity industry in the country. And looking back with that kind of historical lens, who could have ever imagined how the industry would have evolved and transformed to this point, where GPs can do digital due diligence with drones.

> "There's an increasing fascination with and appetite for emerging markets. Speaking personally, since the year began, there have been some intimations that some international investors would like to take a look at South Africa." Madonko.

"I think that South Africa was an early starter in private equity, and it raised a lot of capital in the early days, and the sort of pioneers in the field almost seeded the industry," recalls Bellew. "People would work for a private equity house and then spin themselves out and create their own firm. And as they did that, so the market matured. We ended up with sector funds, with funds targeting different market segments. I started out as a callow candidate attorney without any idea of how the industry would evolve. But I'm delighted with the way it has evolved, and I'm delighted also with the way the broader African industry is starting to evolve. I think that the asset class is firmly established. In terms of technology, I think, even for us as legal professionals, we've been amazed at how quickly the digital revolution took over from about March last year. And when I went into self-isolation, I'd never heard of Teams. I'd never been on a Zoom call. And within a week, I was doing both. So, even relics like me have had to drag ourselves kicking and screaming into the 21st century, and adapt to the new way of working. The use of technology to assist in diligences is definitely helping, helping to keep costs down and I think will continue. I'm not sure that it will ever replace the in-person, in-the-office kind of vibe that you really need to build a team, and to build your brand. But, I think the world of work has changed. I don't think it's changed fundamentally, but I don't think that we will ever be rigid, eight-to five people again; we will be much more flexible. And I think that's the same in every industry. I think we've all recognized that what counts is the intellectual output, and whether you do that remotely from your home office or in person, in the office, whether you communicate it in person, or through some sort of electronic medium, it doesn't really matter either."

As we look into our crystal balls and we try to pick out which are those big themes, which are the areas that are going to drive activity in the private equity industry, what do you see as the big trends, looking forward into 2021, that are going to be attractive for private equity buyers?



Langa Madonko

"I think, carrying on from what John and John said," begins Madonko, "that technology is definitely one of the big themes that is going to remain. We're still going to have pockets of excellence that are unearthed, in terms of making life in a remote working environment a lot easier. We're going to have the emergence of tech, in terms of assisting to facilitate a lot of other activities that we probably took for granted in the past, as being on site functions. We are seeing the emergence of, and the growth of A.I. funds and technology funds that are looking to invest in some of these meeting platforms, as well as what is probably, from a South African perspective, forced IR, rather than Fourth IR. From a South African perspective, some of the more fundamental and more traditional asset classes, such as infrastructure, will still play a key part because, I think, if COVID did anything, it showed a discrepancy in terms of the infrastructure accessibility throughout the country."

Business rescue is a standout theme, and this year DealMakers is introducing a special category to recognise the work going on behind this growing trend.

Madonko believes that it's not necessarily businesses that have gone into business rescue, but more players who are able to turn around and to make more robust businesses out of ones that may have been teetering on the brink of collapse.

"I think that we still need private equity to be saving jobs, alongside creating new jobs," says Madonko. "So, labour intensive sectors being the focus of PE funds will attract a lot of capital as well."

What we are certainly seeing on the JSE is a bevy of delistings. A lot of these are being driven by private

equity buyers, obviously seeing a lot of value at current valuations for an exit, although, it doesn't look like the best window to exit into. How would you characterise the current Private Equity exit environment?

John Geel

"Our sense is that there is likely to be, in the current year, some of those transactions that had been delayed and put on hold in 2020, coming back to the market in 2021," says Geel. "While 2020 might have been difficult, we think that might be slightly different in the current year and that there may be some companies that will hold on for longer, because, as you know, the private equity industry gets the returns, ultimately, from cash flows during the period of holding the investment and then, eventually, on exit. And for some, to get the returns, they may have to delay the exit."

For private equity General Partners, it's this issue of managing your cash flow, keeping a very highly skilled professional team together and incentivised over long periods of time when you're not harvesting, and delaying that even further creates more of a challenge. We have seen alternative structures arise like permanent capital vehicles, for example. How do you see all of this playing out and impacting on the fund structure into the future?

"I no longer see the entire industry moving to one model or another, but I do see the industry adopting a model which is appropriate for the particular industry sector," says Bellew. "Many will adopt permanent capital vehicles, because it stops the need to keep going to markets. And we are still seeing a number of those coming through. We're also seeing people just continue to use the typical two and twenty model. We are seeing, in the current environment, that a number of funds that are coming close to the end of their lives are seeking extensions because, looking to realise the assets in the portfolio in the current market, there's definitely been, as John said, a kind of delay around some exits. And, I think that most private equity funds will want to exit in a coordinated way, rather than over a fire sale."

"I think that it's becoming a question on structure, of what is the right horse for your particular course. For example, real estate infrastructure may well need longer dated funds."

"The other thing that I think we are seeing in the industry is, a lot of private equity houses are saying to us that they find this business of raising capital every five years to be absolutely exhausting. And although that's potentially driving the permanent capital vehicle, I think it's also driving people to become more generalised, or to increase the number of assets that they have in their portfolio, with the number of funds that they have in the portfolios, so that they aren't dependent on just one fund and raising a successor fund every five years, because that makes the business very uncertain."

> "Our sense is that there is likely to be, in the current year, some of those transactions that had been delayed and put on hold in 2020 coming back to the market in 2021." Geel

What's the fundraising environment looking like?

"COVID brought with it additional uncertainty about the South African market in particular, on top of what have been historic themes around why international investors were slow to put investments into the country," explains Madonko. "Amongst those were the issues of political uncertainty and corruption."

"There's an increasing fascination with, and appetite for, emerging markets. Speaking personally, since the year began, there have been some intimations that some international investors would like to take a look at South Africa. But looking at our own local investment base, especially with the focus and with the rhetoric coming out of government that there needs to be a drive to invest in infrastructure, investors are all looking for a safe way to deploy capital into that space. And investors place a greater reliance on private equity funds being able to deploy the capital where they say they will deploy, than they do in a state mandated programme. That has been positive for those players in the space that are focusing on infrastructure."

Obviously, COVID-19 set back the president's drive to recalibrate the state to start turning things around after the State Capture years. How confident are you about the prospects in South Africa?

"2021 is going to be a good year," says Bellew. "I think that infrastructure is a bottomless pit. Private equity likes it. I think there will be structures, the number of listed infrastructure funds that will allow pension funds to use their listed share allocation under s28 to invest in infrastructure. Infrastructure will definitely continue to raise money and I think other sectors will, too. And we're going to see a lot more deals now that people have got used to the new normal and they can transact again."

It's clear that there are many reasons why private equity is one of the better placed asset classes to continue to weather the COVID-19 crisis. But the vaccine must be procured and rolled out with speed to provide further impetus to what looks to be a much more fruitful deal-making year than 2020. ◆

The article is an extract from a Business Day TV interview.

Private equity pursuing divestiture opportunity

Global corporations are slowly sloughing off businesses that do not form part of core operations: this includes publicly reported disposals by listed companies such as Ascendis Health, Sasol and MTN. As the market re-assesses and adapts itself to the repercussions of COVID-19, Liz Kolobe of Agile Capital believes that divestiture is emerging as a positive trend, and that Private Equity can be a win both for the seller and the buyer.

Whilst reasons for divestiture vary, selling non-core assets essentially sharpens the focus of a business by returning emphasis to core operations; simultaneously, such sales improve liquidity for the seller, allowing for a reduction in excess debt. "Often, when leadership teams re-focus, opportunities arise within a business to review operational structures, client service and the like. While it can be painful, it can allow for organic growth, which, in turn, is not just due to the injection of cash," says Kolobe.

> "...divestiture has a silver lining for investors, particularly as South Africa seems to have an exceptional success rate with regards to management buy-outs."

Some believe that local companies can provide superior solutions. As such, South Africa urgently needs to develop a more positive view with regards to investing in local companies.

Acknowledging that slowing GDP growth rates and socio-political conditions are additional factors encouraging divestiture in the local market, means that now is the time for potential investors with foresight to make strategic acquisitions. "For tested management teams to locate a reputable PE partner significantly favours investors in current conditions," explains Kolobe.

Additionally, divestiture has a silver lining for investors, particularly as South Africa seems to have an exceptional success rate with regards to management buy-outs. The standard of local corporate governance is high and, says Kolobe, "BEE and BBBEE are also strong drivers, as most of our transactions include the opportunity to improve BEE credentials, acting as an added stimulus for the acquisition".

Liz Kolobe

While the next four quarters are uncertain, in terms of how COVID-19 will continue to impact the global and local economy, both established business and entrepreneurs will be able to look for the best possible outcome, utilising private equity as a vehicle for growth. "Importantly, this will enable private equity to define the business reality for the company, ensuring a solid base from which to grow," concludes Kolobe. ◆

PRIVATE EQUITY DEALS 2020 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Investment by	Inqo Investments	Kentegra Biotechnology		undisclosed	Jan 3
Acquisition by	Ferro South Africa from Speed Bird Investment	Performance Colour Systems	Webber Wentzel; Werksmans; Cliffe Dekker Hofmeyr	not publicly disclosed	Jan 15
Acquisition by	African Infrastructure Investment Managers a member of Old Mutual Alternative Investments (Old Mutual) from Savannah Petroleum plc	minority stakes in Accugas and Seven Uquo Gas		$54m	Jan 17
Acquisition by	Kalon Venture Partners	a stake in Sendmarc		undisclosed	Jan 21
Acquisition by	Five Elms Capital	a stake in Skynamo		$30m	Jan 21
Acquisition by	FSD Africa Investments	an additional stake in MFS Africa		$1,2m	Jan 21
Acquisition by	Secha Capital	a stake in Rush Nutrition		undisclosed	Jan 21
Acquisition by	Havaic	a stake in AURA		R6m	Jan 22
Acquisition by	Sana Partners Fund 1	a stake in Ares Holdings		undisclosed	Jan 24
Acquisition by	SKG Towers from Vantage Mezzanine Fund II	Portion1 Erf 2909, Pretoria	Cliffe Dekker Hofmeyr	undisclosed	Jan 24
Acquisition by	Senatla Capital Investment Management	a stake in Joe Public United	Werksmans	undisclosed	Jan 29
Acquisition by	Techstars, Platform Investment Partners Growth and Platform45	a stake in Howler		undisclosed	Jan 30
Acquisition by	Kleoss Fund 1 (Kleoss Capital)	a minority stake in Bandag Southern Africa	ENSafrica	not publicly disclosed	Feb 13
Disposal by	Grand Parade Investments to Emerging Capital Partners Africa Fund IV LLC	95,36% stake in Burger King (South Africa) and Grand Foods Meat Plant	PSG Capital; Cliffe Dekker Hofmeyr	R570m + R23m	Feb 19
Disposal by	Agri-Vie Fund I to Masimong Group	stake in InteliChem		undisclosed	Feb 20
Acquisition by	Africa Renewable Power Fund (African Rainbow Capital Investments)	stake in CrossBoundary Energy (CBE)		$16,5m	Feb 20
Acquisition by	Two Hop Ventures from Paper Plane Ventures	a stake in Centbee	Cliffe Dekker Hofmeyr	undisclosed	Feb 21
Disposal by	Raubex Roads and Earthworks (Raubex) to Acorn Black Investments	Raubex Property Investments	Investec Bank	R383m	Feb 28
Acquisition by	Nedbank Venture Capital (Nedbank)	minority equity interest in Omnisient	Nedbank CIB	R3,3m	Feb 28
Acquisition by	Investec Private Capital and Compass Venture Capital	minority equity interest in Omnisient		undisclosed	Mar 4
Acquisition by	Apis Growth 12 (managed by Apis Partners) from Efficient minorities	all issued shares in Efficient excluding 110 333 872 shares held by certain shareholders	Bravura Capital; Merchantec Capital; Adams & Adams; Cliffe Dekker Hofmeyr; Nodus Capital	R36,42m	Mar 12
Acquisition by	Capitalworks Atlanta (via special purpose vehicles BidCo and InvestCo) from Peregrine minority shareholders	Peregrine (excluding shares held by subsidiaries)	Java Capital; One Capital; Deloitte; Cliffe Dekker Hofmeyr; Werksmans; Webber Wentzel; Clifford Chance; Bedell Cristin; Conyers Dill & Pearman; Appleby (Isle of Man); Appleby (Guernsey); Dechert; KPMG; PwC; Deloitte	R4,2bn	Mar 13
Acquisition by	Iron Bridge Capital	investment in Roos Foods (a KFC franchise with 71 stores in several provinces)		undisclosed	Mar 14
Acquisition by	RMB Corvest (RMB Holdings)	investment in Roos Foods (a KFC franchise with 71 stores in several provinces)	Cliffe Dekker Hofmeyr; EY	undisclosed	Mar 14
Acquisition by	Mast Capital and Scott Gibson	a stake in Contactable		undisclosed	Mar 18
Acquisition by	Adcock Ingram from RMB Corvest	100% of Plush Professional Leather Care	Deloitte; Rand Merchant Bank; ENSafrica; Bowmans	not publicly disclosed	Mar 18
Acquisition by	Mainstreet 1754 (Ata Fund III)	a majority stake in Jachris Hose and Couplings	Ferryman Capital Partners; Webber Wentzel; BakerTilly Greenwoods	not publicly disclosed	Mar 27
Acquisition by	Ascension Capital Partners	a 30% stake in CMC SA Investments	White & Case South Africa	undisclosed	not announced
Acquisition by	Kingson Capital	a stake in Onecart	Eversheds Sutherlands (SA)	undisclosed	not announced
Acquisition by	Growthpoint Properties	stake in Onecart	Eversheds Sutherland	not publicly disclosed	not announced

PRIVATE EQUITY DEALS 2020 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Investment by	Kalon Venture Partners	in Mobiz	Bowmans	$1m	Apr 1
Investment by	Pegasus (group of 11 investors)	in Ingress Healthcare		R6m	Apr 15
Acquisition by	Sana Partners Fund 1	a majority stake in Brenn-O-Kem		undisclosed	Apr 17
Acquisition by	Phatisa Food Fund 2, Norfund, Mbuyo Capital and DEG	a stake in Farming and Engineering Services	Bowmans	undisclosed	Apr 22
Acquisition by	Pape Fund 3 En Commandite Partnership	a significant stake in the E.O.E.C Group	Bowmans	undisclosed	Apr 30
Disposal by	African Infrastructure Investment Managers, a member of Old Mutual Alternative Investments (Old Mutual) to IDEAS Managed Fund (AIIM)	14% stake in Cookhouse and 34% stake in REISA	Cliffe Dekker Hofmeyr	undisclosed	May 5
Disposal by	RMB Ventures (RMB Holdings) and Ninety One's Africa Private Equity Fund 2 to Botswana Development Corporation	24% stake in Kamoso Africa		undisclosed	May 15
Acquisition by	Umkhathi Wethu Ventures [UW Ventures] and Allan Gray	a stake in CompariSure		undisclosed	May 18
Acquisition by	Umkhathi Wethu Ventures [UW Ventures] and Allan Gray	a stake in Peach Payments		undisclosed	May 20
Acquisition by	Naspers Foundry (Naspers)	investment in Aerobotics	Webber Wentzel	R100m	May 20
Investment by	Edge Growth	in Syafund		R2,5m	May 21
Acquisition by	South Downs Investment LP (Apollo Global Management) from minority shareholders	Atlantic Leaf Properties	Java Capital; Lazard & Co; Perigeum Capital; Cliffe Dekker Hofmeyr; DLA Piper; Gibson, Dunn & Crutcher UK; Bedell Cristin; G&P Legal; Addleshaw Goddard; Questco; BDO (UK)	£152m	May 22
Investment by	Spear Capital	in RunwaySale		R100m	May 25
Investment by	uMunthu Fund (Goodwell Investments), UW Ventures (in partnership with Allan Gray) and MFS Africa	in Inclusivity Solutions [second tranche of Series A}		$1,3m	May 27
Investment by	CNBB Venture Partners	in Wyzetalk		undisclosed	May 27
Acquisition by	Public Investment Corporation (PIC)	a 13% stake in Aradei Capital		$50m	May 27
Investment by	CRE Venture Capital, Perivoli Innovations, Chandaria Capital, Lateral Capital, Kam Kronenberg II and others	in Carry1st		$2,5m	May 28
Investment by	Fledge Capital and SLA Capital	in Oasis Water	Benchmark International	undisclosed	May 29
Investment by	Lionpride Agility Fund	in BusyMed		undisclosed	Jun 2
Acquisition by	Tana Africa Capital II	a minority stake in Alexandria For Healthcare Investments [Mabaret Al Asafra]	Multiples Group; Zilla Capital; PwC; GLG; TMS Legal; Matouk Bassiouny & Hennawy	undisclosed	Jun 2
Investment by	Platform Capital	in Merge Tech		$100 000	Jun 7
Acquisition by	ARCH Emerging Market Partners (African Rainbow Capital Investments)	stake in SunExchange	Bowmans	$3m	Jun 9
Investment by	Crossfin Ventures	in TruID		undisclosed	Jun 10
Acquisition by	Futuregrowth Asset Management (Old Mutual)	LifeCheq		undisclosed	Jun 16
Acquisition by	Ikamva Lakusasa and Senatla Capital	26% and 34% respectively of Joe Public United		undisclosed	Jun 18
Acquisition by	HAVAIC	a stake in Mobiz		undisclosed	Jun 19
Acquisition by	ViaMedia	a stake in Paymenow	Cliffe Dekker Hofmeyr	R4m	Jun 22
Acquisition by	Medu Capital	a 25.1% stake in Weir Minerals South Africa	Rothschild & Co (SA); Bowmans	undisclosed	Jun 26
Disposal by	Redefine Properties to ARE Funds AZL and ARE Funds APKV (Allianz SE)	Australian student accomodation portfolio (90% beneficial interest in each of Uni Place, Leicester Street and Central, Swanston Street)	Java Capital	A$459m	Jun 26
Disposal by	Legae Peresec to Ancilla Capital and SBSA ITF GUI GENERIS LPLF H4 QHF	24 637 469 African Phoenix Investment shares	Java Capital; Mazars	R9,85m	Jun 29
Acquisition by	Retailability (backed by Metier) from Edcon business rescue practitioners	part of Edgars	ENSafrica; Cliffe Dekker Hofmeyr; EY	undisclosed	Jul 7

PRIVATE EQUITY DEALS 2020 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Disposal by	Franc	a stake in Franc (seed investment)		$300 000	Jul 9
Acquisition by	Aristotle Africa (Silverlands II SCSp) from institutional investors including Old Mutual and Allan Gray	32% stake (62 103 447 shares) in Quantum Foods	One Capital; SilverStreet Capital; PSG Capital; Cliffe Dekker Hofmeyr; Webber Wentzel	R372m	Jul 10
Acquisition by	Futuregrowth Asset Management (Old Mutual)	investment in SweepSouth		undisclosed	Jul 15
Acquisition by	Vumela Fund (FirstRand)	investment in Sea Monster		$1m	Jul 16
Disposal by	Enko Africa Private Equity Fund	its stake in AMI Worldwide		undisclosed	Jul 20
Acquisition by	100x Ventures, 4Di Capital, Bittrex and Montegray Capital	stake in VALR		R57m	Jul 21
Joint venture by	Lionpride and ETS PLATFORM	preventative telemedicine platform [pilot to run in SA and then extended to the rest of Africa]		undisclosed	Aug 3
Acquisition by	RMB Corvest (RMB Holdings)	equity interest in Switch	Cliffe Dekker Hofmeyr	undisclosed	Aug 3
Investment by	Entrepreneurs for Entrepreneurs (E4E) Africa	in Enlabeler		undisclosed	Aug 5
Investment by	Endeavor	in Guidepost		undisclosed	Aug 6
Acquisition by	AlphaCode (Rand Merchant Investment)	investment into Guidepost		undisclosed	Aug 6
Investment by	Sanari Capital	in Lightware LIDAR		R25m	Aug 17
Investment by	Enygma Ventures from the Shift Fund	in Job Crystal		R4,2m	Aug 25
Acquisition by	The Africa Food Security fund (Zebu Investment Partners)	a stake in IQ Logistica		undisclosed	Aug 26
Acquisition by	Medu Capital	51% stake in Secutel Technologies		undisclosed	Aug 31
Investment by	i7V	in Roundr (follow-on investment)		undisclosed	Sep 2
Investment by	Metier through its Sustainable Capital Fund	in Broadreach Energy		undisclosed	Sep 2
Acquisition by	Firefly Investments 342 from Robor (in liquidation)	Mine Support Products	ENSafrica; Cliffe Dekker Hofmeyr	not publicly disclosed	Sep 6
Investment by	Platform Investment Partners, Ruby Rock Investment and LBOS	in Yellow (Series A funding)		$3,3m	Sep 8
Investment by	GSV Ventures	in Valenture Institute		$7m	Sep 16
Acquisition by	PAPE Fund 3	a 45% stake in DDS Group of companies		undisclosed	Sep 16
Acquisition by	Naspers Foundry (Naspers)	investment in Food Supply Network		undisclosed	Sep 17
Disposal by	Brait SE to Capitalworks and T Hutchinson	majority stake in DGB		undisclosed	Sep 23
Acquisition by	Vuna Partners Fund from Mergon Group	an 80% stake in 4PL Group	Pallidus Capital	undisclosed	Sep 25
Acquisition by	Ata Capital	significant stake in Novasun Products and Sunripe Fruits	Webber Wentzel	not publicly disclosed	not announced
Disposal by	Sanlam International Investment Partners (Sanlam) to Africa Management Consultancy (Africa Pledge Partners)	stake in SMC Global Securities	ENSafrica	$6,75m	not announced
Acquisition by	Greenstreet 1 through Stanlib Fund II SPV (Liberty) from Lombard Insurance	10% stake in Solar Capital De Aar 3	Cliffe Dekker Hofmeyr; Herbert Smith Freehills South Africa	R96,14m	not announced
Acquisition by	OMPE GP IV (Old Mutual) from 10x Investments minority shareholders	10x Investments	Cliffe Dekker Hofmeyr	R130,27m	not announced
Acquisition by	Vantage Capital	a significant minority stake in the Cliniques Internationales du Maroc Group	Webber Wentzel; Clifford Chance; Asafo; Deloitte	$28m	Oct 5
Disposal by	Sasfin Wealth (Sasfin) to Summit Private Equity	21,1% stake in Efficient		R146,26m	Oct 5
Acquisition by	Summit Private Equity from two exiting shareholders	16,29% stake in Efficient	Cliffe Dekker Hofmeyr; Webber Wentzel	R104,28m	Oct 5
Disposal by	Caxton and CTP Publishers and Printers to Neoma Africa Fund (Actis Group)	minority stakes in Octotel and RSAWeb	Rand Merchant Bank; Fluxmans; Webber Wentzel; EY; BDO; Deloitte	R493m	Oct 12
Investment by	Kalon Venture Partners and IDF Capital	in Carscan		undisclosed	Oct 14
Disposal by	Crossfin Technology to Yoyo	its stake in wiGroup		undisclosed	Oct 14

PRIVATE EQUITY DEALS 2020 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Disposal by	African Infrastructure Investment Managers a member of Old Mutual Alternative Investments (Old Mutual) through funding to Phakwe Group	further 51% stake in Core Energy (owner of Witkop Solar Park in Limpopo, SA)	Cliffe Dekker Hofmeyr; Norton Rose Fulbright	R300m	Oct 14
Disposal by	CIGenCo SA (Consolidated Infrastructure Group) to the Mergence Namibia Infrastructure Fund Trust	49% stake is each of Ejuva One Solar Energy and Ejuva Two Solar Energy	Cliffe Dekker Hofmeyr	N$62,5m	Oct 16
Investment by	SixThirty	in Click2Sure		undisclosed	Oct 19
Disposal by	Omnia to Rovensa (managed by Bridgepoint and Partners Group)	Oro Agri	Java Capital; Webber Wentzel; Bowmans; PwC	$146,9m	Oct 19
Investment by	FinX Capital	in Udok		R10m	Oct 22
Investment by	Subtropico and other investors	in swiftVEE (Series A)		$1,5m	Nov 4
Acquisition by	Exeo Capital and Stellenbosch Graduate Institute from Pearson	Pearson Institute of Higher Education	EY	undisclosed	Nov 9
Disposal by	Hyprop Investments to Actis Africa Sustainable Real Estate Income Fund and Actis West Africa REIF	75% stake in Ikeja City Mall in Lagos, Nigeria		$45m	Nov 9
Disposal by	Attacq to Actis Africa Sustainable Real Estate Income Fund and Actis West Africa REIF	25% stake in Ikeja City Mall in Lagos, Nigeria		$15m	Nov 9
Acquisition by	Emerging Energy Corp	a strategic stake in Sustainable Power Generation		undisclosed	Nov 10
Investment by	Saviu Ventures, Compass Venture Capital and Kalon Venture Partners	in FinChatBot		$1,6m	Nov 12
Acquisition by	Kagiso Capital	a stake in Alphawave Group		R100m	Nov 13
Disposal by	Life Healthcare to Abris Capital Partners	Scanmed	DLA Piper (Warsaw)	R806m	Nov 16
Acquisition by	STOA and South African Housing & Infrastructure Fund (SAHIF)	a stake in Metrofibre Networx	Bowmans; Webber Wentzel	R520m	Nov 17
Investment by	Imvelo Empowerment Capital	in Xago		undisclosed	Nov 17
Acquisition by	African Infrastructure Investment Managers a member of Old Mutual Alternative Investments (Old Mutual)	minority stake in MetroFibre Networx	Bowmans; Webber Wentzel	R822,76m	Nov 17
Investment by	E4E, Mark Forrester, Dale Williams, Alastair MacMurray and Ross McIlroy	in Yebo Fresh		undisclosed	Nov 19
Acquisition by	Naspers Foundry (Naspers)	investment in The Student Hub	Cliffe Dekker Hofmeyr	R45m	Nov 19
Acquisition by	Africinvest from Kagiso Tiso	a minority stake in Fidelity Bank Ghana		undisclosed	Nov 24
Acquisition by	Harith General Partners and Pembani Remgro Infrastructure Fund	a signification equity stake in Zimborders Mauritius	EY	undisclosed	Nov 30
Disposal by	LetMeIn.to to an impact investor	a stake in LetMeIn.to		R2,2m	Nov 30
Investment by	Secha Capital	in iG3N		undisclosed	Nov 30
Investment by	Secha Capital	in Cultura Fresh		undisclosed	Nov 30
Disposal by	Adcorp Workforce Solutions (Adcorp) to Corvest 12, ASS Investco and other consortium members	FMS Marketing Solutions and Employee Benefits	PSG Capital; Webber Wentzel; ENSafrica	R227,3m	Dec 2
Disposal by	Ethos Capital (EPE Capital Partners) to Convergence Partners	1,4% stake in Channel VAS Investments	Webber Wentzel; Bowmans	$5m	Dec 2
Investment by	E^2 Investments and Jozi Angels	in Locumbase		undisclosed	Dec 3
Acquisition by	Bachique 813 [Trinitas Equity Partners and Forbes Investment Holdings] from Tupperware Nederland	Tupperware Holdings SA [Avroy Shlain Cosmetics in SA and Botswana] (deal does not include the Tupperware plastics business)	Werksmans; ENSafrica	not publicly disclosed	Dec 9
Investment by	FMO and Cathay AfricInvest Innovation	in Aerobotics		undisclosed	Dec 11
Acquisition by	Minet Group and Africa Lighthouse Capital from Aon	Aon Holdings Botswana		undisclosed	Dec 11
Acquisition by	Identity Property Fund (En Commandie partnership)	a stake in TSU Group	Vani Chetty Competition Law	not publicly disclosed	Dec 18
Acquisition by	Adam uGP	a stake in Capital Eye Investments	Cliffe Dekker Hofmeyr; BDO	not publicly disclosed	not announced
Acquisition by	Black Capital Partners, Plus 1 Connect and Reunert ICT	a stake in PlusOneX	Cliffe Dekker Hofmeyr	undisclosed	not announced
Acquisition by	Greenstreet 1 through Stanlib Infrastructure Fund II (Liberty) from Thebe Investment	81,84% economic interest in Thebe Renewable Energy	Rand Merchant Bank; DLA Piper; Webber Wentzel; Norton Rose Fulbright; PwC	R2,8bn	not announced