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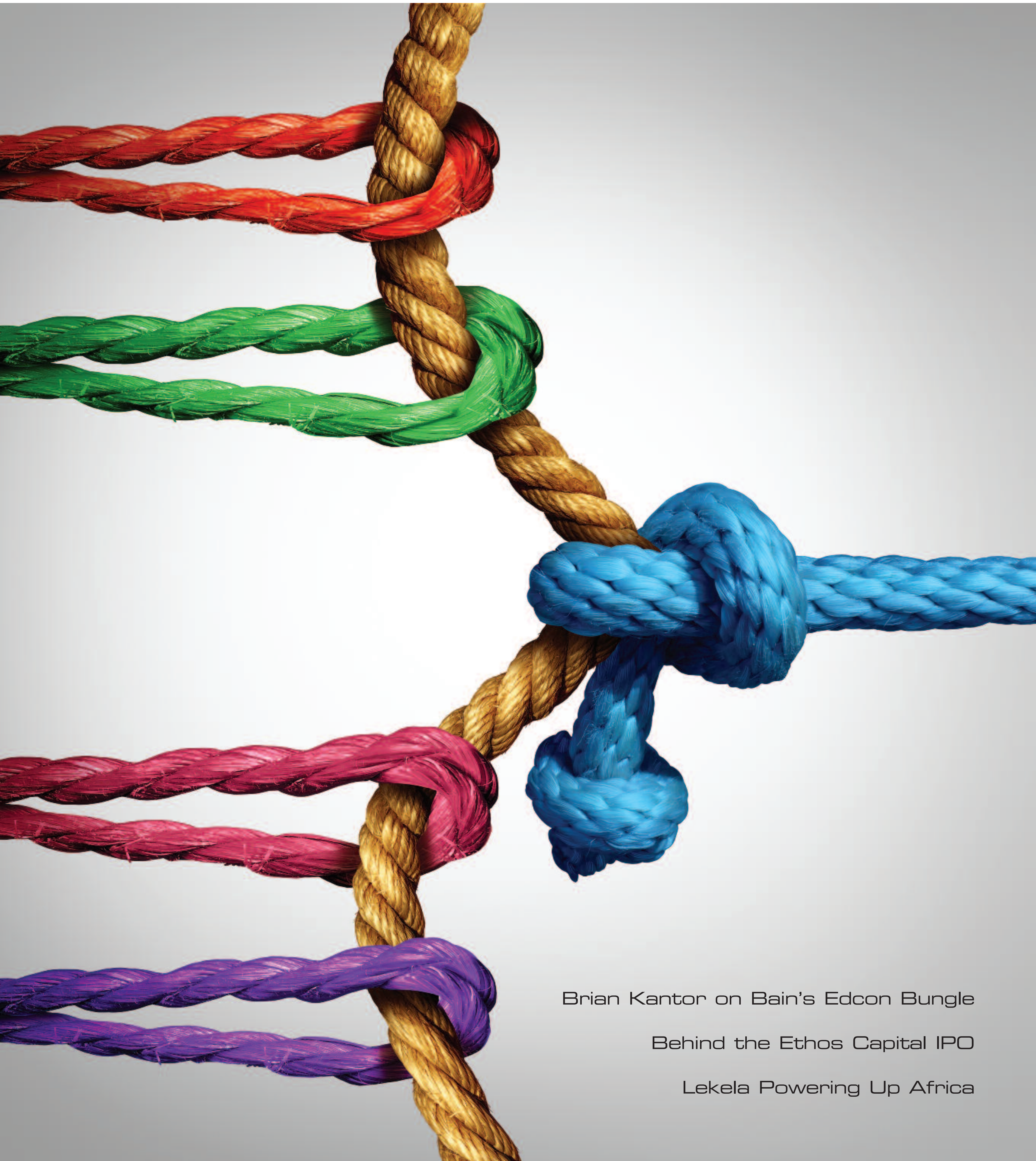

Brian Kantor on Bain's Edcon Bungle

Behind the Ethos Capital IPO

Lekela Powering Up Africa

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fruitful partnerships

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FROM THE EDITOR'S DESK

In a move that surprised many, and one for which the Public Investment Corporation's management must be applauded, South Africans finally have sight of a traditionally opaque area of the PIC's investment portfolio: unlisted investments.

Statistics taken from the PIC's presentation of October 16 2016 to the Standing Committee on Finance, and from the PIC's 2015/2016 annual report, reveal its total unlisted investment portfolio amounts to R44,6bn, representing 2,4% of its aggregate assets under management of R1,86trn.

Of the unlisted investments, R37,4bn are in South Africa, with the major sectors being manufacturing (29%), renewable energy (16%), housing (9%), agriculture (7%) and property (6%).

The balance of R7,2bn of the unlisted portfolio is invested in the rest of Africa, mainly in financial services (33%), manufacturing (32%) and telecommunications (24%).

The PIC classifies R23,5bn of its unlisted portfolio as developmental investments and R21,1bn as private equity.

While much of the attention centered on the headline-grabbing investments in Independent Newspapers and VBS Mutual Bank for obvious reasons of public interest, it is worth noting the PIC's substantially larger investments in the less juicy (for the mainstream media at least) private equity funds managed by third parties.

Take the Abraaj Africa Fund III for example. The startling fact is that an $80,000,000 (approximately R1,2m) investment has so far yielded (can one even call it that?) a staggering -33.44% IRR.

And the inaugural Kleoss Fund 1 investment of R750m so far returning -41,18%. That's almost half the initial investment wiped out in 24 months.

To be absolutely clear, private equity investments are by nature longer term, so one cannot jump to final IRR conclusions just yet. Nor can one forget that they are higher risk and that one has to have the stomach for the losers to enjoy the winners. But picking them is increasingly difficult in this market.

Abraaj is an experienced, reputable GP with a stellar record. Kleoss is a black-owned maverick firm founded in 2014 by a trio with an exemplary CV including RMB, JP Morgan Chase, and the list goes on.

But scrutiny and oversight must be unusually robust in this part of the portfolio, for exactly those reasons already listed. The temptation to use government employees' pension money to drive developmental agendas must be enormous, but cannot be driven at the expense of returns.

The return on the unlisted portfolio was 9,68% over 24 months, below the PIC's benchmark of just over 11%. That sort of performance, while not a hammer blow and not falling far short of the internal benchmarks used, comes at the worst possible time for advocates of the asset class trying to encourage greater participation by big institutional pension funds. ◆

Michael Avery

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When Ethos announced it was to float its own limited partner, Ethos Capital, that would invest in Ethos funds (the underlying funds will still be structured as funds using the limited partnership model), it was hailed by one industry insider as "a great move that helps in raising capital and which opens an avenue for non-traditional investors in private equity (including the man in the street) to obtain exposure to the asset class."

Ethos taps the capital markets

And that it may be. But it also signals a clever response to the offshore fundraising pressure that South African general partners are grappling with due to a markedly weaker and undervalued currency. Hard currency, dollar-based returns have been anaemic at best over the last two years.

When quizzed about the strategic reasons behind the move, Ethos Capital CEO, Peter Hayward-Butt, agreed to some degree that the move was in response to the offshore fundraising challenge.

"I think we are absolutely on the same page. Internationally things are difficult. But it's point in time risk. Fundamentally, despite Ethos performing very well in local currency terms, in dollar terms the international investors have seen negative to zero growth. You can't continue to rely on investors investing into a currency exposure that doesn't provide returns for them. So, yes, in some context it is a response to that."

Hayward-Butt is quick to point out that the listing doesn't

change Ethos's strategy. "Ethos Capital will be a limited partner alongside a number of other limited partners, and Ethos will continue to build on its great relationships with its existing investor base. Ethos Capital will play a big role in encouraging more local funding into its underlying funds," he says.

"If you look over the last couple of years Ethos has been looking at its strategy and has decided to diversify the funds and products that it offered its investors, offering an opportunity to invest into the newly launched mid-market fund. This fund is in effect a private equity vehicle focused on the mid-market space,

"You can't continue to rely on investors investing into a currency exposure that doesn't provide returns for them."
Hayward-Butt

but quite importantly it's going to be set up as a black owned entity within the Ethos umbrella, so it will provide opportunities to players in the BEE space."

Additionally, Hayward-Butt points out that Ethos acquired a team from Stanlib in July, called Mezzanine Partners, one of the top, independent, South African providers of mezzanine capital established back in 2005.

Peter Hayward-Butt

"They've focused over the years on raising and investing mezz capital very successfully," explains Hayward-Butt, "and that will be another fund that Ethos Capital has the opportunity to invest in alongside Ethos."

Ethos Mezzanine, as it has been renamed, will invest in a broad spectrum of mezzanine financial instruments, each one tailored to meet the needs of a specific transaction or borrower, such as second lien loans, convertible loans, payment-in-kind notes and preference shares.

Ethos Mezzanine Partners 3 will target providing intermediate capital to market-leading companies with a sustainable competitive advantage and/or critical success factors, and a proven track record of delivering predictable/no cyclical free cash flow to service debt. Additionally, the Fund will target investments in businesses that have experienced management teams and shareholders of reference that meet its requirements.

The mezz space is heating up as bank lending is increasingly constrained by regulation, primarily Basel III. Ethos Capital intends committing up to R500m to Ethos Mezzanine Partners 3, subject to its commitment not exceeding 33% of the total commitments received by Ethos Mezzanine Partners 3 on final close.

From a governance perspective, Ethos Capital will be its own entity, with an independent board, its own investment committee, and two key executives, Mike Pfaff and Derek Prout-Jones, who were previously at RMB as CEO and CIO respectively.

"The board will make decisions on what to invest in," explains Hayward-Butt, so for all intents and purposes [Ethos Capital] is almost like a sister company to Ethos Private Equity, albeit that it's separately managed.

"We hope that this is a relatively innovative vehicle to enable retail investors to participate in the sort of returns that private equity and Ethos has been able to demonstrate over the last three decades."

And those returns are staggering, considering the fact that return profiles flatten out over longer time horizons. Over the last 20 years Ethos has delivered a 27% Gross IRR, which, after fees, equates to 21%, roughly a 50% premium to what the ALSI has done over the same period, but the 5% in fees stand out.

One of the major concerns for retail investors would clearly be fees and Hayward-Butt stresses that Ethos has gone out of its way to ensure there are no fees on fees.

"Without going into the technical details, effectively Ethos Capital will invest through its own partnership with its own fee structure so there won't be fees that would normally be paid to traditional LPs, there'll be a separate fee structure," Hayward-Butt explains. "It's a different fee structure to traditional LPs. It'll be 1,5% rather than 2% and only on invested NAV rather than commitments. Second, there will be annual performance fees but very importantly there is a three-year high watermark and by that we mean at the end of that third year you'll look back and say how much in performance fees should have been paid over to Ethos PE over that period of time, and if more or less had been paid there'll be a 'true-up' (reconciliation) at the end of the third year. Effectively that keeps the manager honest to ensure consistent returns over a three-year period."

The vehicle will also apply the relatively stringent standard PE valuation methodology called the international private equity valuation guidelines. That equates to a number of discounts being applied to normal listed multiples.

"To give you some indication, around a 25% discount to the peer group is where the current Fund VI valuation sits, so if you took a whole peer group of multiples and you applied the relevant discounts for liquidity, geographic, financial and other factors, the current NAV would be around a 25% discount. And that unwinds when you sell the asset or liquidate them."

Ethos Capital earlier successfully placed 180 000 000 ordinary shares at R10 per share with qualifying investors, raising R1,8bn in an oversubscribed placement. Rand Merchant Bank acted as the financial adviser, sole global coordinator, bookrunner and JSE sponsor in relation to the listing of the Mauritian-domiciled entity.

It is anticipated that the net proceeds from the listing will be invested in the following four strategies:

- Primary Investments: commitments to various funds to be raised and managed by Ethos Private Equity ("Ethos Funds") during their respective fund-raising processes;
- Secondary Investments: acquisitions of existing Limited Partner interests in existing Ethos Funds;
- Direct Investments: acquisitions of interests in underlying investee companies alongside Ethos Funds to the extent that the Ethos Funds require co-investors in the underlying investee companies; and
- Temporary Investments: investments in a portfolio of low-risk, liquid debt instruments (including South African government bonds and other similar, low-risk, liquid instruments) for cash management purposes.

At the time of writing, the market was applying a discount to the share price which seemed to indicate the market was awaiting new deal announcements from the Ethos funds.

Overall though Ethos Capital is a welcome addition to the JSE and, in a roundabout way, takes private equity public again.

Bain and Company, a private equity fund, has thrown in the towel on its involvement with Edcon, a private company that it has owned and controlled since 2007.

The Edcon story – was it a failure of capital structure or of management? Or a bit of both?

Brian Kantor

When it took over, it immediately converted the equity stake it had acquired from Edcon shareholders for some R25bn (with almost no long term debt on the Edcon balance sheet) into additional Edcon debt of some R24bn, with some additional finance of about R5bn provided as loans from its controlling shareholders. It has now reversed this transaction, converting the considerable outstanding debts of Edcon back into equity. Edcon is the owner and manager of Edgars, a leading clothing retailer, as well of other retail brands, including CNA and Boardmans.

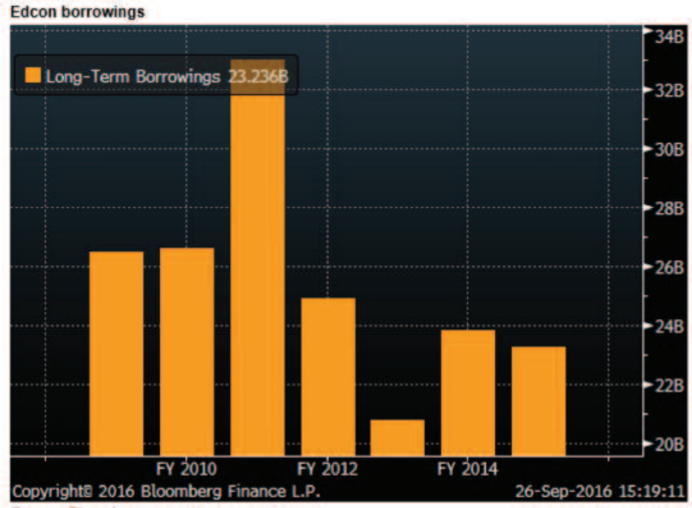
The 2008 balance sheet reported total Edcon assets of R38,1bn, up from R9,5bn the year before. Much of these extra assets were created by writing up the intangible assets, including goodwill, that Bain had paid for and raised Edcon debt against. The cash flow statement for 2008 reports "investments to expand operations: R24,4bn". This was a euphemism – the cash was patently used to reconstruct the balance sheet, not to expand operations.

More important for the new shareholders than the description in its financial reports, it failed to persuade the SA Revenue Service (SARS) that the extra borrowing was undertaken to produce extra income. As a result, Edcon had to use some of the cash it was generating from operations to pay the significant amounts of tax, as well as the interest, it was committed to paying. In the early period, the 47 weeks to March 29 2008, it paid cash taxes of R246m. And despite the fact that large ongoing accounting losses that were incurred as interest expenses greatly exceeded trading profits, it continued to deliver cash to SARS at the rate of over R100m per annum. More recently, according to the cash flow statement in the 13 weeks to December 26 2015, cash taxes paid amounted to R32m.

This appears to be a large mistake made when Edcon was originally reconstructed. Presumably, had Bain registered a new company to buy out the Edcon assets from its shareholders and this company had then funded the purchase with debt, the interest expense would have been allowed as incurred in the production of income. And the consequent losses could have been carried forward to offset future income and to raise the current value of the company.

Much of this debt was to mature in 2014-15, a commitment that Edcon was unable to fulfil as was long apparent and well-reflected in the much diminished market value of its debt that traded on global markets. It will be appreciated that the Edcon financial losses have mostly been incurred by its creditors, not by Bain and Company. The statement of Edcon's financial position in December 2015 reports a shareholders' loan of R828m, well down from the more than R5bn recorded in 2008. Clearly Bain and its co-shareholders have walked away with nothing to show for their efforts. The company is by all accounts now worth less than was paid for it in 2008.

In the charts below, the 71% of Edcon euro debt is converted into rands at current exchange rates. In January 2008, a euro cost R11,12. As may be seen, the rand value of this euro debt is now significantly higher than it was in early 2008. But the rand value of this original debt had actually fallen significantly by 2010, providing an opportunity to restructure the debt with profit that apparently was ignored.



Source: Bloomberg

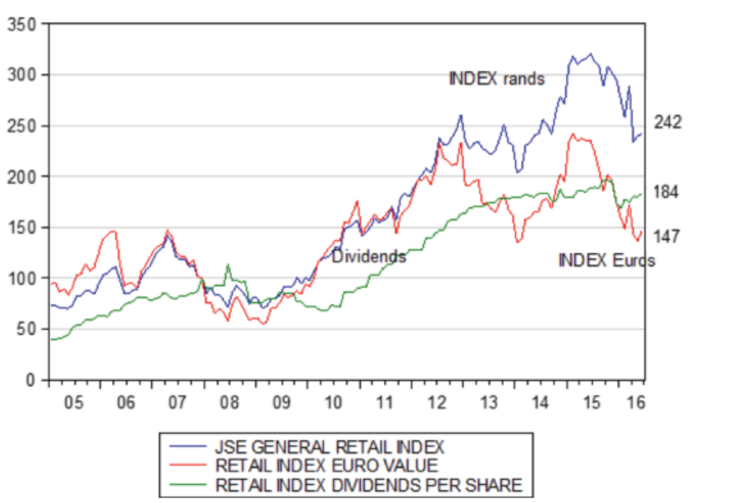
The rand value of the new Edcon's euro debt at current exchange rates (2008-2016)

Source: Edcon Financial Statements, I-Net and Investec Wealth & Investment

And if the burden of this euro debt burden was dragging down the operating performance of the retail operations (denied essential working and other capital, as it has been argued by management) then there was ample opportunity, surely, to add more equity capital with which to compete with the competition. And the competition has been doing very well, partly at Edcon's expense, as measured by value of the General Retail Index of the JSE.

We have rebased this index and the retailers' dividend per share to January 2008. We have also converted these additional rand values into euros at current values. As may be seen, the share market backdrop for clothing retailers and their ilk on the JSE was encouraging, but more so in rands than in euros (until very recently) with its combination of weaker retail share prices and a weaker rand. It seems clear that had Edcon operated in line with its competition, it could have added value for its shareholders and its debt, particularly had it been converted to rand debt (which would have been manageable).

The value of the JSE General Retail Index of the JSE (rands and euros) and Index dividend flows (January 2008=100)



Source: Edcon Financial Statements, I-Net and Investec Wealth & Investment

With the agreement of its creditors, who now own all of the shares in Edcon in exchange for cancelling its loans, and with new debt raised of about R6bn, Edcon can continue to operate normally, much to the relief of it managers, workers and landlords. The horrors of business rescue have thus been averted, to the presumed advantage of its creditors and its future prospects. Given that Edcon continues to realise significant trading profits, it makes every sense for it to stay in business to deliver value for its new shareholders. For the third quarter of F2016, Edcon reported a trading profit of R763m and depreciation and amortisation of R248m, making for cash flows from operations of over R1bn for the quarter (though down by 7,7% on Q3 of F2015). Net financing costs of R958m for Q3 F2016 were also reported, 10% higher than Q3 in F2015. Coincidentally, the debt on the Edcon balance sheet of F2016 was of about the same rand book value of about R22bn it reported in F2007. Its euro value, as may be seen, is considerably lower.

Brian Kantor

Bain and its funders clearly failed to realise the prospective gains they envisaged when they geared up the Edcon balance sheet. The potential rewards to the owners of the much reduced equity capital were potentially very large had the company proved able to service its debts. On returning to public company status, the possibly R5bn of equity finance provided might have doubled in value had the market value of the company gained an additional R10bn of value over the 10 years.

To put it another way: had Edcon performed as well as the average general retailer did on the JSE over the period, these gains would have been realised. But the average JSE-listed clothing retailer was not encumbered by nearly as much debt, particularly the 71% of its debt denominated in euros. This appears as the major original strategic error made by Bain, to which it never made the adjustment. Combining rand revenues that Edcon would generate, with hard currency debt, represents a highly risky strategy. Perhaps the SA debt market would not have been willing to subscribe the large amount of the extra debt raised. But there was surely always the opportunity to fully hedge the foreign currency risk. But this would have meant paying interest at a South African rather than a euro or dollar rate, a cost that, had it been incurred, may well have (correctly perhaps with hindsight) undermined the investment case for a highly leveraged play on the SA retail market.

The Edcon experience has unfortunately not been able to add to the case for private equity over the public equity alternative in SA, that is to say, to use public money to take a (large) listed company private. The case for private equity is not based on its superior financial structure of more debt and less equity, though clearly the leverage adds greatly to the potential returns for equity holders (assuming all turns out well for the company). Moreover, the conversion of a public company to a private one, through private equity funds, or more or less the same thing, through a management buyout, may not be possible without significant reliance on debt finance. The case for private equity is that the few shareholders with much to gain and lose have every incentive to closely and better manage their stake in the company. They will be active shareholders with highly concentrated investments, unlike those of the average listed company with wider stakeholders, as opposed to shareholder interests, to serve. The large publicly funded private company represents, therefore, a helpful competitive threat to the public company, from which shareholders (including pension funds) the economy and its growth prospects can benefit.

It is thus no accident that the number of companies listed on all the US stock exchanges has declined dramatically over recent years, by between 40% and 60% over the past 25 years according to different estimates, as pension funds and endowments have increased their allocations to alternative investments and especially to private equity funds. Private companies may well, on a balance of full considerations, serve their owners better than public companies.

The competitive threat therefore should be encouraged and not discouraged (including by SARS). The objective of tax policies should be much wider than merely protecting the tax base. Private equity, by adding to the growth potential of an economy and especially adding to the willingness of the system to bear additional risks for the prospect of additional returns, deserves no less or more than equal tax treatment.

For its errors of commission and omission, Bain and the managers it chose for Edcon were unable to improve its operating performance. How much this equity is now worth is a matter of conjecture that can only be resolved when, as is the intention, these Edcon shares are re-listed on the JSE. The sooner the current Edcon shareholders get to know what their shares are worth, surely the better, and the sooner the shares can be listed and so could pass into the hands of perhaps more active investors, the better the company can be expected to perform. ◆

Kantor is chief economist and strategist at Investec Wealth & Investment.

**The views expressed in this column are those of the author and may not necessarily represent those of Investec Wealth & Investment*

PE offers the entrepreneur the benefit of an experienced partner with whom to tackle the market, shifting focus from immediate earnings to longer term solutions, critically including a positive phase emerging locally – the "buy to hold" practice.

The Changing Face of the PE Landscape

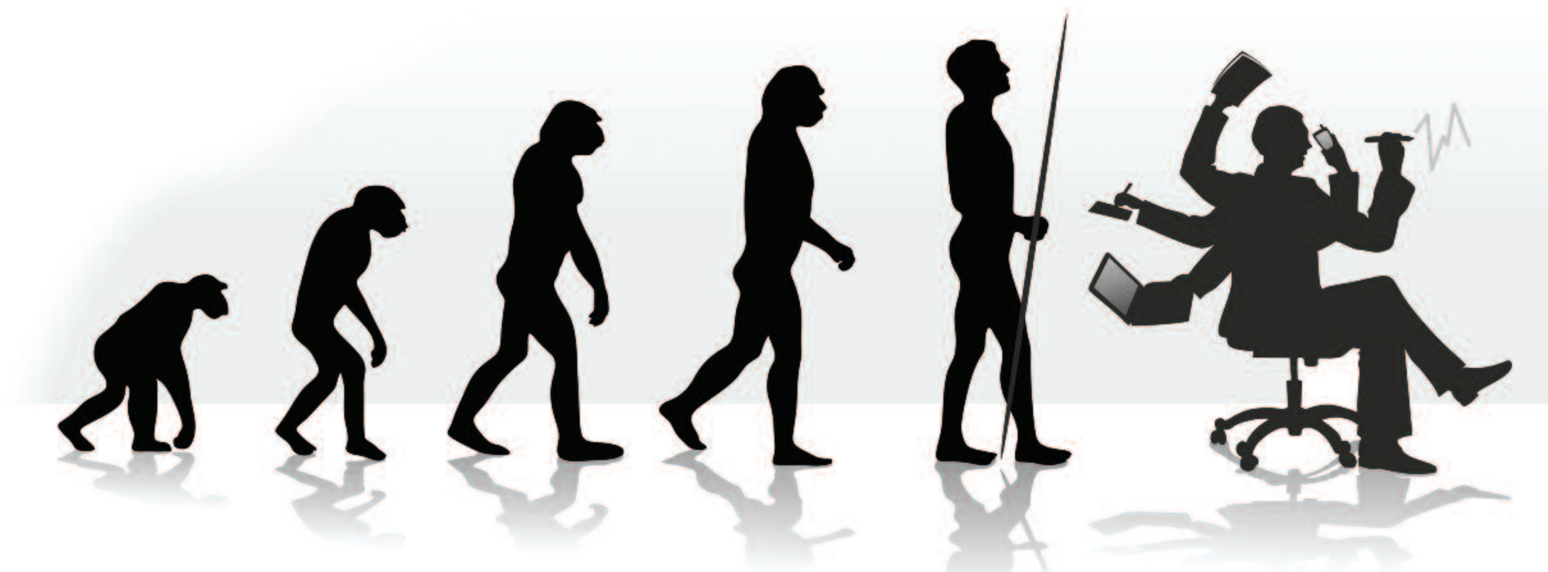
Within the local market, PE remains focussed on financial metrics: the pace of transforming the PE landscape will depend not only upon the quality of PE skills but on the strategic thought guiding practice. However, a significant shift is currently emerging as industry strategy is seen moving from a "buy to sell" towards a "buy to hold" practice. The latter identifies a distinct second phase in PE investment evolution, whereby PE investors not only turn around an investment vehicle, but significantly reinvigorate and develop that vehicle to achieve still higher returns.

While the "buy to sell" phase of PE investment more regularly involves a far shorter incubation span for an investment vehicle – often incorporating vigorous financial restructuring but stopping short of sustained nurturing and management of an acquisition – the second "buy to hold" phase evident in the local market demonstrates growing stamina in PE partnerships. "A greater appetite for higher yield achieved through more meaningfully nurturing an acquisition is present in the market right now," notes Mike Donaldson, director, RMB Corvest. "Various PE players are moving to create industrial platforms and are not looking for 'quick fixes' or selling off unfinished jewels."

The "buy to hold" practise focuses on establishing long-term partnerships, ensuring stability, support and profitability: critical benefits which PE offers that are not otherwise guaranteed when attempting to raise liquidity via public listing. The listed market does not accept stagnation or moderate growth, and in difficult and uncertain times listed companies are beholden to market expectations, including expectations of increasing earnings per share (EPS).

Additionally, during this phase still higher gearing levels are more comfortably accommodated – ultimately assisting to achieve high overall returns.

Despite this notable shift in the local landscape, the country remains some way from realising the third recognised phase in PE evolution of "buy and transmute" currently dominant in Western markets. This third phase represents a full structural reconfiguration through the generation of an inter-relational portfolio of investments symbiotically supporting each other, with far greater intervention regarding management upgrades.



"PE, on the other hand, offers business the liquidity without some of the short-term hurdles – allowing investments to keep out of the limelight, and without their having to consider a diverse body of shareholders," says Donaldson. As such, PE enables the focus to remain squarely on a long-term strategic vision of value creation free from the pressure of immediately increasing current EPS, with the achievement of those longer-term goals ensuring that all parties receive higher returns.

Mike Donaldson

Consequently, within the current "buy and hold" phase of PE evolution, suitable M&A targets are better identified and realised within considerably more elastic timeframes than listing would otherwise permit. As such, focus is set on the so-called 'equity uplift' and, by corollary, invites a greater diversity of methodologies to achieve the desired longer term valuation.

> Despite this notable shift in the local landscape, the country remains some way from realising the third recognised phase in PE evolution of "buy and transmute" currently dominant in Western markets

And this presents a skills challenge for the sector. Sector focus and specialist, sector-specific skills are now required to appropriately – and significantly – transmute an acquisition into an interlocking portfolio asset. However, the risks of this methodology are considerably higher as investors cannot simply rely on existing management skills.

"The broadening of the local skills pool will be necessary to attain the identified third phase," says Donaldson. "This will happen, but will take the local industry several years to achieve." ◆

As far as South African and even African private equity gatherings go, the annual SAVCA Private Equity Conference at Spier Wine Estate in Stellenbosch is undoubtedly without peer.

Blossoming into fruitful partnerships

It places general partners around the table with limited partners in an environment conducive to dealmaking – let's face it, the private equiteers are a caffeinated bunch, so despite the picturesque holiday surrounds there's always one eye on opportunity.

"The theme of the SAVCA 2017 Conference is 'Fruitful Partnerships'," says SAVCA CE, Erika van der Merwe, "which is a statement that celebrates the rewarding impact of private equity partnerships on businesses, communities and economies: collaborations between private equity managers and institutional investors mobilise capital from international and local sources for productive deployment; the teamwork done by private equity managers with investee companies builds better businesses, which in turn creates new employment opportunities and shapes healthier communities."

Van der Merwe points out that this will be SAVCA's tenth annual conference on private equity in Southern Africa, and will target nearly 400 attendees from Southern Africa, other African countries, Europe and the USA.

"The event is a platform to showcase the industry and its impact on the regional economy, and is designed to create a compelling context for networking and information sharing amongst industry players," explains van der Merwe.

CIOs, CEOs, CFOs, Fund Managers and other senior investment professionals from organisations with a demonstrable track record in allocating capital to private equity fund managers on a third-party basis, such as Pension Funds, Sovereign Wealth Funds, Development Finance Institutions, Insurance Companies, Endowments, Family Offices, also have the exclusive opportunity to attend a formal lunch and information session, just prior the official opening of the 2017 vintage.

Attendance is complimentary, and is subject to approval by the conference organising committee.

More information about the conference, which kicks off on February 22nd 2017, is available at www.2017.savca.co.za. ◆

Lekela Power Africa recently announced the signing of a commitment with the Overseas Private Investment Corporation (OPIC), the U.S. Government's development finance institution, for the development, construction and operation of a 158 megawatt wind farm in Taiba N'Diaye, Senegal. This occurred on the side-lines of the U.S. - African Business Forum, in New York City.

Actis making renewables mainstream in Africa

This is one among a host of interesting announcements over the last 18 months by Lekela, which is clearly a thriving partnership between Actis, the global pan emerging market private equity firm, and Mainstream Renewable Power, the global wind and solar developer. It builds on the success of two previous ventures between Actis and Mainstream in South Africa and Chile.

Catalyst caught up with Lisa Pinsley, a South Africa-based director of Actis's energy team, to find out more about the blossoming partnership and the Taiba Wind project.

Pinsley only joined Actis in August, but has been in the African power scene for about nine years and is deeply knowledgeable of the evolution of the renewable power sector and its many opportunities and challenges.

"Actis' energy strategy has been to create and grow power platform companies, companies that own a group of assets at different stages whether it is operations, construction or development and create a team or partner with strong partners to manage and grow the portfolio," explains Pinsley.

The most well-known example of this strategy is the Globeleq Africa platform, which Actis created and then eventually sold in 2014 to a consortium of CDC (the UK government's investment arm) and Norfund.

"When Actis was looking for its Energy Fund III renewables platform for Africa, it knew the market already. Via Actis' platform Globeleq, we had partnered with Mainstream on three deals in that round one of the renewables programme: the Jefferies Bay Wind Farm, De Aar and Droogfontein solar projects. Mainstream was already a very well-known partner and had partnered with it in Latin America," says Pinsley. She is quick to add that while there is more and more interest in Africa, developers are looking for partners. They are not just in the market for any capital, but rather looking for capital that can add value beyond the funding and can bring a team and deep local knowledge.

The OPIC windfarm in Senegal is close to Pinsley's heart because she joined Actis from American Capital, where the deal was hers. It's part of the reason she made the move.

"The Taiba wind project has been in development for years. It's 158MW, it's about 75kms from Dakar.It recently reached OPIC board approval. We would expect it to reach financial close in the next three to six months," says Pinsley.

While board approval was a huge hurdle to overcome, she cautions that these things are always moving targets.

"American Capital came into the deal about a year and half ago with the local developers, and when it had to exit its EM portfolio due to parent company issues they did have a bidding process," explains Pinsley.

She stresses that it wasn't just a price bidding process, but was fundamentally about finding the best partner to drive the project, and that's why Pinsley believes Actis ultimately won.

"It isn't just a question of who bids the highest price. We know in Africa it takes a long time to close and you need the partners next to you who know the utilities and know the banks and all the players to make it happen."

The project will see the power sold to the state-owned utility Senelec. The finance facility provided by OPIC, and one other bank that will be announced once board approval is given.

The project is expected to increase Senegal's available installed power capacity by 24%. Senegal suffers from a chronic deficit in electricity supply, with regular power rationing and blackouts that adversely affect living conditions and economic development. The cost of electricity in Senegal is high because nearly 90% of the electricity is currently generated using costly oil-based fossil fuel. This project is a critical component of Senegal's power generation and sustainable energy growth plan, and supports the goals of the U.S. Government's Power Africa initiative.

Lisa Pinsley

"The exciting thing about renewables is that it's now cost competitive with thermal generation. Senegal's primary generation is based on liquid fuels and so the cost of renewables and this wind per kwh, even with the cheap oil prices, is still cheaper than their cost of power. That makes it a very attractive option to Senegal - not just because they are trying to greenwash but because it brings down their average cost of power."

Asked about what's driving the phenomenal growth and success of renewable power projects across the continent, in addition to the cost competitiveness of renewable power, Pinsley points to the building blocks of the project financing model as the key.

"In emerging markets these power projects sell under long-term contracts. Once you get to financial close and into construction, many of the risks are mitigated. You have a long-term off-take agreement with a price. You're not bidding into a market, so it's quite easy to model expected returns. Plus you have the fixed price fully wrapped EPC contracts, and you can even take out political risk insurance to ensure that you are paid throughout the life of that contract."

And that is what rolls up into the private equity play so well and why we're seeing such a hive of activity around renewable honey pots.

Pinsley believes that the biggest risk is getting them to financial close, and that's where the industry insight, knowing these projects and picking the right ones is key, because you could spin your wheels.

The only thing Lekela is spinning right now is wind turbine blades across the continent, as urgent need for power across Africa meets partnership capital in the form of private equity. ◆

Local and International news

National news

Three new SAVCA directors were appointed at its AGM in September. Paul Boynton, Managing Partner of Old Mutual Alternative Investments, Cathy Goddard, CEO of Vuwa Investments, and Yvonne Maitin, Partner at Bopa Moruo, are the newest entrants to the board of thirteen directors tasked with serving and promoting the Southern African private equity and venture capital industry.

They replace outgoing directors – Stuart Bradley, Ron den Besten and Richard Flett.

Flett, who has served SAVCA since the inception of the organisation in 1998, continues on the SAVCA Regulatory Sub-Committee. ◆

Investec Asset Management, through its Africa Private Equity capability, has acquired a significant shareholding in Mobisol, a leading provider of off-grid solar home systems (SHS) in Africa. Investec Asset Management will partner with Mobisol's founder management, with the aim of accelerating the company's growth in its existing markets and to support its expansion into new markets in Africa.

The Berlin-headquartered company offers low-income African households quality solar home systems that are a clean, safe and affordable alternative to fossil fuels. Mobisol systems are designed specifically for the African market and are powerful enough to meet the energy needs of a typical off-grid African household.

They are able to power lighting, radios, stereos, mobile phone charging, TVs and other appliances such as irons, fridges and fans. A three-year payment plan makes the systems affordable, with entry-level systems costing approximately the same on a daily basis as the typical customer spends on kerosene, candles, batteries and mobile phone charging prior to purchasing a Mobisol SHS.

Since inception Mobisol has installed over 60 000 solar home systems in Tanzania and Rwanda, enabling some 300 000 people to access clean, affordable and reliable solar energy.

Investec Asset Management established an African private equity capability in 2008. ◆

Global Alternative Asset Manager The Carlyle Group announced in September that it has agreed to acquire a majority share of Amrod, a fast-growing supplier of promotional products and clothing, serving distributors in South Africa and neighbouring countries.

Funding for this investment will come from the Carlyle Sub-Saharan Africa Fund, while the three founders of the business will reinvest alongside Carlyle. The transaction is expected to close in 2016, subject to regulatory approvals. Further financial details were not revealed.

Founded in 2000, Amrod has grown organically to become one of the largest promotional products suppliers in Sub-Saharan Africa. The product offering includes promotional gifts and clothing across many categories, with the large majority of products branded in the company's state-of-the-art in-house facility. ◆

International

Bloomberg reports that private equity companies are taking advantage of a surge in demand for health-care products in Africa to invest in a market that's suffering from government underfunding. Abraaj Group invested $145m to improve facilities and medical equipment at hospitals and clinics in Tunisia and Egypt in the third quarter, with a similar amount now being planned south of the Sahara.

Bloomberg reckons London-based Development Partners, International LLP, may invest as much as $150m in health-care assets for its second fund in Africa over the next three to four years. The fund, which closed in April last year, took DPI's assets in the region to $1,1bn. ◆

Reuters reported in August that the head of Standard Chartered's African fund, which has $800m invested, is set to leave the bank as it trims its private equity team on the continent, according to CEO of Standard Chartered Private Equity, Joe Stevens.

Peter Baird, who was appointed in 2011 and has 20 years experience in private equity and investment banking, will be replaced by Ronald Tamale, a former Goldman Sachs analyst.

Baird declined to comment. It was not clear if he quit or was removed. ◆

PRIVATE EQUITY DEALS Q1 – Q3 2016 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Disposal by	Vantage Capital and African Woman Chartered Accountants Investment to Kleoss Capital	entire stake in TrenStar		undisclosed	Jan 12
Acquisition by	Old Mutual Fund IV (Old Mutual)	significant minority stake in In2Food	Merrill Lynch; Nedbank CIB; Webber Wentzel; Cliffe Dekker Hofmeyr	undisclosed	Jan 14
Acquisition by	Ethos	65% stake in The Eazi Group	Webber Wentzel	R1,6bn	Jan 25
Acquisition by	Amadeus and MTN	undisclosed stake in Travelstart		$40m	Feb 3
Acquisition by	Amadeus Capital Partners	stake in Hepstar		undisclosed	Feb 24
Acquisition by	Nodus Equity	undisclosed stake in Hair City	Webber Wentzel	undisclosed	Mar 1
Acquisition by	Nodus Equity	undisclosed stake in Big Save	Webber Wentzel; Cliffe Dekker Hofmeyr	undisclosed	Mar 1
Acquisition by	Medu Capital	increased stake from 27% to 100% in Elite Truck Hire	ENSafrica	R450m	Mar 9
Acquisition by	Medu Capital	Universal Coatings	Hogan Lovells (SA)	incl above	Mar 9
Acquisition by	Convergence Partners	stake in inQuba		undisclosed	Mar 9
Acquisition by	Stanlib	a partnership stake in Exeo Capital		undisclosed	Mar 15
Disposal by ■	Anglo American to consortium led by Taurus Fund Management	70% stake in Foxleigh metallurgical coal mine, Queensland Australia	Rand Merchant Bank	undisclosed	Apr 5
Acquisition by	African Rainbow Capital	18.14% stake in Metrofibre Networx	Webber Wentzel	undisclosed	Apr 11
Acquisition by	Convergence Partners and Stockdale Street	100% of e4		undisclosed	Apr 13
Acquisition by	Investec Equity Partners from management	24 034 409 Assupol shares, taking it's stake from 30.8% to 36.6%	Investec Specialist Bank; BDO; Cliffe Dekker Hofmeyr	R132m	Apr 22
Acquisition by	Investec Equity Partners from minorities	844 885 (0.2%) Assupol shares @R5.50 each	Investec Specialist Bank; BDO; Cliffe Dekker Hofmeyr	R4,6m	Apr 22
Disposal by	Masonite (Africa) through Business Resuce Proceedings to Warhorse Private Equity	plant and equipment	Investec Bank; Nedbank CIB; Norton Rose Fulbright (SA)	R 100	May 5
Disposal by	WG Wearne to a consortium led by Jade Industrial Holdings	Wearne Precast	Exchanage Sponsors; Cliffe Dekker Hofmeyr; Grant Thornton	R21,2m	May 10
Acquisition by	Harith General Partners (through its Pan African Development Fund II)	a significant stake in NOVO Energy		undisclosed	May 22
Acquisition by	Inqo Investments	stake in Bee Sweet Honey		$60 000	May 24
Acquisition by	Fairtree Capital	The Rosevine in Cornwell, UK		undisclosed	May 31
Acquisition by	Convergence Partners	stake in Snapt		$1m	Jun 1
Acquisition by	Invenfin (Remgro) from major shareholder	significant minority stake in DV Artisan Chocolate		undisclosed	Jun 14
Acquisition by	Yellowwoods Capital	stake in DataProphet		undisclosed	Jun 14
Acquisition by	Bidvest from Ethos Private Equity and management	Brandcorp	Standard Bank; Rand Merchant Bank; Investec Bank; Werksmans; Webber Wentzel	not publicly disclosed	Jun 17
Disposal by	Torre International (Torre Industries) to African Agriculture Fund and a management consortium	45% stake in Torre Equipment Africa (40%:5%)	Rand Merchant Bank; Bowmans	$15,7m	Jun 20
Acquisition by	African Rainbow Capital	20% stake in Val de Vie Investments		undisclosed	Jun 21
Acquisition by	Nedbank Private Equity	25% stake in Comsol Networks		undisclosed	Jun 28
Acquisition by	Marlin Brands (Coast2Coast Capital)	Albi	DLA Piper; Maddocks	undisclosed	Jun 29
Acquisition by	Acorn Agri	an additional 14,7% of Grassroots (total stake now 59,3%)		undisclosed	not announced Q2
Acquisition by	Leaf Capital	minority stake in Wellness Warehouse		undisclosed	Jul 4
Disposal by	South African Infrastructure Fund (SAIF) (AIIM)	60% stake in the Bakwena Platinum Corridor Concessionaire; 50 stake in Trans African Concessions and a 38% stake in N3 Toll Concession	Macquarie Capital; Cliffe Dekker Hofmeyr; Webber Wentzel	undisclosed	Jul 5
Acquisition by	WDB Investment and Grovest	57,5% (30% : 27,5%) stake in Seed Engine		undisclosed	Jul 7
Acquisition by	WEC Projects from Medu Capital	61.8% stake in Industrial Water Cooling		undisclosed	Jul 12
Acquisition by	Jacobs Capital from Courthiel Holdings	Gelvenor Textiles		undisclosed	Jul 18
Acquisition by	BoE Private Equity Investments	25% stake in Comsol Networks	Cliffe Dekker Hofmeyr	undisclosed	Jul 20
Acquisition by	African Rainbow Capital	29,9 stake in CMB International (parent firm of Bravura)	Bravura; Intercontinental Trust; Werksmans; Webber Wentzel; BLC	R120m	Jul 29
Acquisition by	Kap Industrial from Rockwood Fund I GP, Thebe Safripol Investments and management	Safripol	PSG Capital; Webber Wentzel	R4,1bn	Aug 10

PRIVATE EQUITY DEALS Q1 – Q3 2016 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Acquisition by	African Rainbow Capital	a minority stake in Colourfield Liability Solutions	Webber Wentzel ; ENSafrica	undisclosed	Aug 11
Acquisition by	Kleoss Capital GP Trust	a stake in Real Foods	Bowmans; Werksmans	not publicly disclosed	Aug 12
Acquisition by	African Rainbow Capital	30% stake in ooba	ENSafrica	undisclosed	Aug 15
Acquisition by	Steinhoff International from Actis	Tekkie Town	PSG Capital; Webber Wentzel; ENSafrica	undisclosed	Sep 6
Acquisition by	Kleoss Capital	significant stake in the Centre for Diabetes		undisclosed	Sep 6
Acquisition by	Lucid Ventures	20% stake in "Jamie's Italian" restuarant chain in SA		undisclosed	Sep 15
Acquisition by	Wendel from Rockwood Private Equity and minority shareholders	Tsebo Group	Deutsche Bank; Bowmans; Webber Wentzel	R5,25bn	Sep 20
Disposal by	Bain Capital to creditors	Edcon	Houlihan Lokey (Europe); PJT Partners; Weil, Gotshal & Manges	$1,5bn	Sep 20
Acquisition by	Jacobs Capital and Vulindlela	a majority stake in Summit Crane Hire		undisclosed	Sep 22
Disposal by	Afrimat Empowerment Investments (Afrimat) to African Rainbow Capital	18,36% stake in Afrimat	Bridge Capital; ENSafrica	undisclosed	Sep 23
Acquisition by	Carlyle Group	a majority stake in Amrod	Webber Wentzel	undisclosed	Sep 26
Disposal by	Stanlib Asset Management (Standard Bank) to Ethos Private Equity	Stanlib Credit Partners	Webber Wentzel	undisclosed	not announced Q3

PRIVATE EQUITY DEALS Q1 – Q3 2016 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED VALUE	DATE
Africa	Strategic Partnership	Denham Capital and GreenWish Partners : to develop, build and finance a 600MW renewable-energy portfolio across Sub-Saharan Africa by 2020		undisclosed	Feb 22
Africa	Disposal by	Actis of Emerging Markets Payments to Network International	Morgan Stanley; Perella Weinberg Partners; Clifford Chance; Webber Wentzel; Freshfields Bruckhaus Deringer	$340m	Mar 2
Africa	Acquisition by	Abraaj Group of Themis		undisclosed	Mar 16
Africa	Joint Venture	Africa Finance Corporation's interests in Cenpower and Harith General Partners' assets in the Pan Africa Infrastructure Development Fund(PAIDF) : new energy entity	Standard Bank; KPMG; Allen & Overy	$3,3bn	Jun 22
Africa	Investment by	Investisseaurs & Partenairs and Proparco in Enko Education		undisclosed	Aug 1
Algeria	Disposal by	Mediterrania Capital Partners of its stake in Cellulose Processing to The Abraaj Group		undisclosed	Jan 11
Algeria	Acquisition by	Mediterrania Capital Partners of a 43% stake in Cieptal Cars		undisclosed	Apr 4
Botswana	Acquisition by	Afinitas of a 66.66% stake in Adventis		$2,5m	Aug 23
Burkina Faso	Investment by	Investisseaurs & Partenairs in Barajii		undisclosed	Aug 1
Cape Verde	Acquisition by	Africa Finance Corporation of InfraCo Africa's remaining stake in the Cabeólice Wind Farm		undisclosed	Feb 19
Cote d'Ivoire	Acquisition by	Amethis Finance and West Africa Emerging Markets Growth Fund of an additional stake in Pétro Ivoire		undisclosed	Feb 28
Cote d'Ivoire	Investment by	Investisseaurs & Partenairs in Africa Radio		undisclosed	Aug 1
Cote d'Ivoire	Investment by	Development Partners International in Atlantic Financial Group	Euromed Advisory; Rothschild, KPMG France; PwC; Dentons; Allen & Overy	$100m	Sep 13
Cote d'Ivoire	Acquisition by	Adenia Partners through its Adenia Capital III fund of a majority stake in Ademat		undisclosed	Sep 23
DRC	Investment by	XSML in Institut Aurora		undisclosed	May 9
DRC	Investment by	XSML in Laboratoire BIS		undisclosed	May 9
East Africa	Acquisition by	AfricInvest of a stake in Silafrica Plastics and Packaging International	Clyde & Co; Bowmans	undisclosed	Mar 11
Egypt	Disposal by	Abraaj Group of its remaining stake in Integrated Diagnostics Group		undisclosed	Jan 17
Egypt	Disposal by	Amwal AlKhaleej of its investment in Sarwa Capital to the Egyptian-American Enterprise Fund		undisclosed	Feb 1
Egypt	Acquisition by	EFG Hermes of a 76.7% stake in Tanmeyah Microenterprise Services from Qalaa (70%) and Tanmeyah management (6.7%)	EFG Hermes Investment Banking; Arab Legal Consultants; KPMG	EGP345m	Feb 24
Egypt	Disposal by	MENA Infrastructure of its 30.33% stake in Alexandria International Container Terminals to Hutchison Port		undisclosed	Mar 7
Egypt	Disposal by	Actis of a 7% stake in Edita Food Industries		EGP905,8m	May 31
Egypt	Acquisition by	Emerging Investment Partners of General Cable Egypt		undisclosed	Jun 22
Egypt	Investment by	Development Partners International in B.Tech	EFG Hermes; Matouk Bassiouny; Norton Rose Fulbright; Zulficar & Partners; White & Case	EGP300m	Jul 21

PRIVATE EQUITY DEALS Q1 – Q3 2016 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED VALUE	DATE
Ethiopia	Acquisition by	54 Capital of an undisclosed stake in Addis Pharmaceutical Factory		$30m	Jan 6
Ethiopia	Acquisition by	Schulze Global Investments of a 45% stake in MB Plc, the producer of Family Milk		undisclosed	Jan 22
Ethiopia	Acquisition by	8 Miles of a significant minority stake in Verde Beef Processing	KPMG; Clifford Chance; Armbrust & Brown; Harbottle & Lewis	undisclosed	Apr 26
Ghana	Acquisition by	PCM Capital Partners of a stake in Surfline Communications		€5m	Apr 12
Ghana	Investment by	Injaro Agricultural Capital in Gold Coast Fruits		undisclosed	Jun 22
Kenya	Acquisition by	The Norwegian Investment Fund for Developing Countries (Norfund) of a minority stake in Freight-in-Time		$10m	Feb 12
Kenya	Acquisition by	Kuramo Capital Management of a 25% stake in TransCentury	Francis Drummond & Company; Kaplan & Stratton	$20m	Mar 14
Kenya	Acquisition by	Andreessen Horowitz of a stake in Branch International (Branch.co)		$9,2m	Mar 30
Kenya	Acquisition by	Equator Capital Partners and Progression Capital Africa on a stake in Jamii Bora Bank	Bowmans	Ksh1,2bn	Apr 11
Kenya	Investment by	Kibo Capital Partners in partnership with Velogic in General Cargo Services		undisclosed	Apr 18
Kenya	Investment by	Catalyst Principal Partners in Orbit Chemical Industries	Bowmans	undisclosed	Apr 25
Kenya	Acquisition by	CDC Africa Cement (CDC Group) of a 41,66% stake in ARM Cement (share subscription 353,665,200 shares at KES40 per share)	Tradeways; Bowmans	$140m	Apr 30
Kenya	Investment by	Safaricom's Spark Venture Fund in mSurvey		undisclosed	Aug 26
Kenya	Acquisition by	DOB Equity of a minority stake in Twiga Foods		undisclosed	Aug 29
Kenya	Acquisition by	Apis Partners through its Apis Growth Fund I of a stake in Direct Pay Online Group (DPO Group)		undisclosed	Sep 22
Madagascar	Investment by	Adenia Partners in Opham		undisclosed	May 3
Mauritius	Acquisition by	Vantage Mezzanine Fund III USD of a 4.33% stake in Worldwide Landmark Holding Company	Investment One Financial Services; Werksmans; Adepetun Caxton-Martins Agbor & Segun	undisclosed	Apr 12
Mauritius	Disposal by	MCB Equity Fund of 100% of Speedy France to Bridgestone EMEA	MCB Capital Markets	undisclosed	May 30
Mauritius	Disposal by	Torre International (Torre Industries) to African Agriculture Fund and a management consortium of a 45% stake in Torre Equipment Africa (40% : 5%)	Rand Merchant Bank; Bowmans	$15,7m	Jun 20
Morocco	Acquisition by	AfricInvest of a stake in Outsourcia Group		undisclosed	Mar 29
Morocco	Investment by	Actis in Mundiapolis University		undisclosed	May 22
Morocco	Acquisition by	Mediterrania Capitl Partners of a stake in MedTech Group		undisclosed	Jun 7
Mozambique	Acquisition by	S2 Africa (Satya Capital and Sonae Distribuicão) of Extra supermarket chain from Africom Delta Corporation		undisclosed	Feb 7
Namibia	Acquisition by	Eos Capital of a mjority stake in Elso Holdings		undisclosed	May 24
Namibia	Acquisition by	Eos Capital of a 35% stake in Fabupharm		undisclosed	Sep 1
Nigeria	Acquisition by	Synergy Capital of a stake in Africa Terminals		undisclosed	Feb 18
Nigeria	Acquisition by	Synergy Capital of a stake in Suburban Fiber Company		undisclosed	Mar 24
Nigeria	Financing by	Vantage Mezzanine Fund III USD to Worldwide Landmark Holding Company : iro Landmark Village	Investment One Financial Services; Werksmans; Adepetun Caxton-Martins Agbor & Segun	$20m	Apr 12
Nigeria	Investment by	Singularity Investments in Sliide Airtime		undisclosed	May 13
Nigeria	Investment by	Sahel Capital in Dayntee Farms		undisclosed	Aug 8
Nigeria	Acquisition by	8 Miles, African Capital Alliance and Deutsche Investitions und Entwicklungsgesellschaft of a minority stake in Beloxxi Industries	Deloitte; SLR Consulting; Fros Capital; Linklaters; Aluko & Oyebode; Detail Commercial Solicitors	$80m	Aug 19
North Africa	Acquisition by	Mediterrania Capital Partners and Euromena III of a minority stake in BS Invest (Tunisia), CAP Retail (Morocco) and Investex Alegérie (Algeria)		undisclosed	Apr 7
Senegal	Acquisition by	Lekela Power of codevelopment rights and sole rights to invest in the 158MW Taiba Ndiaye Wind Project	Clifford Chance	undisclosed	Jun 22
Tunisia	Acquisition by	The Abraaj Group of a 49% stake in JM Holding, the majority shareholder of Société d'Articles Hygiéniques		undisclosed	Jan 18
Tunisia	Disposal by	Abraaj Group of its stake in Unité de fabrication de médicaments (Unimed) via IPO		undisclosed	May 4
Tunisia	Investment by	The Carlyle Group in Mazarine Energy		undisclosed	May 16
Tunisia	Acquisition by	Actis of a stake in Medis from Africinvest and the Boujbel family		undisclosed	Sep 2
Zambia	Acquisition by	QG Africa Hotel (QG Investments Africa Management) of 100% of the Intercontinental Hotel Lusaka from Kingdom Hotel Investments		$35,9m	Apr 12
Zambia	Acquisition by	Inqo Investments of a stake in Bee Sweet Honey		$60 000	May 24
Zimbabwe	Acquisition by	Capital Seven of a 75% stake in Trust Holdings		$12,5m	Sep 16