

**Vol 6. No 3**

**SEPTEMBER QUARTER 2009**

# Catalyst

**Olivewood first out of the blocks**

**Confidence easing back according to Deloitte**

**Do BEE codes hinder private equity?**

**Building a new investment paradigm**

**SA's Private Equity & Venture Capital**  
magazine



## From the Editor's desk

As one looks back over quarters one through three there is only one conclusion that can be drawn: 2009 has been the nadir of the private equity industry both at home and abroad. Just to illustrate how bad it has been, unless a major transaction is announced in the next six weeks Catalyst will, for the first time, be unable to announce a Private Equity Deal of the Year.

Even so, there is one cold comfort that can be drawn from this: the market only has one direction to go from here and that's up.

This cautious optimism appears to be permeating many private equity players all over the globe.

"The financial markets may be on the cusp of a new 'golden age' for private equity," Silver Lake Co-CEO Glenn Hutchins told Reuters on the sidelines of the International Economic Alliance Symposium recently.

Hutchins, the co-founder of the \$13bn private investment firm, said that, for the moment, investors are once again finding risk premiums at attractive levels versus the low premiums before the asset bubble burst in December 2008.

"This recent stock market rally is a little troubling because it seems to me not to be

supported by underlying economic fundamentals," Hutchins said. "But that aside, we have gotten down to levels that are pretty attractive and the banks seem to be recovering enough to provide modest levels of financing, which is all we need. We feel pretty optimistic," he added.

Another doyen of the private equity industry in the US, Castle Harlan Inc. Chairman and Chief Executive John Castle, speaking at the New York Chamber of Commerce in September, launched a vigorous defence of the industry in the wake of the crisis.

"There have always been doubters and nay-sayers about the prospects and sustainability of private equity," Castle said. "A few years ago, the financial pundits were saying the private equity industry had run out of steam. They said it could no longer grow. I said it could, and it did.

"Now those same so-called experts are arguing that the private equity game is over. They note that almost a trillion dollars of private equity debt will mature before 2015, but that the current market value of that debt is only about half of that amount, say, \$500 to 600 billion.

Therefore, the debt can't be refinanced and the industry, and many of its investors, will be wiped out. It's the end of the world.

"As Mark Twain famously cabled the Associated Press from London in 1897, 'Reports of my death are greatly exaggerated.' And so it is with private equity."

Castle went on in some detail to point out that private equity debt was only a tiny percentage of the nation's total debt pile and he argued that private equity might well become the "wedge" that hacks the US (and, therefore, global) economy out of the recessionary bunker.

Back home, Evalueserve, an internationally renowned research firm, has painted an exceedingly optimistic picture for investment opportunities driven by infrastructure spend and public private partnerships (see page 5).

This may mean that private equity firms have to alter their traditional investment approach. However, an evolutionary mind-shift was inevitable in the aftermath of a credit crisis so widespread and powerful that it almost wiped out all financial institutions as we know them. ♦

## Catalyst

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## Profile

**James Allan, respected diamond analyst and director and co-founder of consultancy firm Allan Hochreiter, unveiled a compelling new venture in September called Olivewood Resources**

# Olivewood treads new ground

This is the first venture capital company (though it prefers the moniker of resource development company) of its kind in South Africa – thanks to a recently gazetted change in the Income Tax Act.

**“Olivewood will get enterprise development credits which will be passed on to the investors”**

“Government has put a fantastic piece of legislation on the table,” enthuses Allan. “I went to the department of finance in 2005 and gave a presentation about South Africa lagging exploration expenditure globally because we didn’t have the legislative environment that facilitated growth in this area.”

Four years on and the National Treasury has at long last gazetted the change to the Income Tax Act that will spur growth in the mining development sector, which has been sorely lacking. s12J of the Act became effective on July 1 2009 and its purpose is to provide an incentive for equity investments in small and medium-sized businesses and junior mining companies.

“The section allows individuals to deduct R2,25m off their tax base over three years or R750 000 per year over that period,” explains Allan.

“It’s a great incentive to encourage investment into the sector. It’s slightly different from the flow-through share model in Canada where they allow the

investor to invest directly into the mining companies. Here it’s more regulated. In other words the investor has to place his investment through a vehicle which is registered with the Financial Services Board and has to make submissions as to what the vehicle has done with the money. This is to ensure that the money is not invested in what they term prohibited industries such as gambling, arms & ammunition etc. which I think is a form of positive regulation.”

This also means that, to qualify as a VCC, Olivewood must comply with strict requirements with regards to minimum assets (R30m/R150m), gross income (90% from financial instruments within 36 months) and portfolio requirements also within 36 months. If VCC status is withdrawn due to non-compliance, an amount of 125% expenditure incurred by investors to acquire VCC shares must be added to the VCC’s income.

The tax deduction benefits are also available to listed companies in terms of this legislation. However, unlisted companies do not qualify.

Another unique investment benefit arises from the Department of Trade and Industries’ Enterprise Development Credits. “The majority of the companies that we’re going to invest in will be BEE compliant in terms of the MPRDA,” says Allan. “Therefore, Olivewood will get enterprise development credits which will be passed on to the investors.” This is available to any investor and has no limitations.

Allan has assembled a formidable team of mining experts, corporate financiers and entrepreneurs to spearhead Olivewood’s foray into the energy and coal sectors. “We’ve got a very strong technical team which I believe will be one the keys to Olivewood’s success,” stresses Allan. And there’s no amount of hyper-

bole in this statement either.

James Campbell, Dr Con Fauconnier, Paddy Kell and Ollie De Sousa-Oliviera head up a list that reads like a veritable who’s who of former Anglo American and De Beers rainmakers. Rene Hochreiter was a top rated platinum and mining analyst for many years and has subsequently added investment banking to his expertise. He works with Allan at Allan Hochreiter. And Botha Schabert is a highly respected entrepreneur and former CEO of PSG Investment Bank. His expertise in renewable energy resources will be sought by Olivewood.



James Allan

“As Olivewood we see massive opportunities in the energy sector,” says Allan. “Every newspaper you read has a story about Eskom and coal demand into the future. Eskom is talking about growth in coal demand going from 120m tonnes per annum to 280m tonnes per annum. And we see competition from India for that coal driving the price up.”

In addition to coal, Olivewood also envisages an exciting and profitable future

in the renewable energy sector. "In 2003 government said they are targeting 10 000GWh of energy demand to be produced by renewable energy by 2013. We're six years down the line and we're nowhere close to that number yet."

This situation can be put down to the economics of renewable energy, which is often costlier and sometimes more technically challenging than conventional fossil fuels.

But the March announcement by the National Energy Regulator of SA of what has been dubbed REFIT (The Renewable Energy Feed-in Tariffs) is set to dramatically alter investment flows in this sector.

Effectively, government is saying that it

will pay the renewable energy supplier between 90c to 210c per KWh of electricity produced depending on the type of technology employed.

"That means it makes it economically viable to have a look at wind farms or solar for instance. The difference between those two is that wind is what we would call plug and play technology," explains Allan. "You can buy a wind turbine, put it up and you generate power."

Allan does caution though that it's not quite as simple as that. "Before you get to that stage you need to find a site, you need to establish the quantum of wind in terms of how many days a year it blows and what the variability of the wind speed

is, so it's quite a complex equation."

Capital raising will run from early October until mid November during which time the company aims to raise R1bn. A number of listed companies have been approached and discussions are underway with individuals who have shown an interest in investing.

When quizzed about the possibility of funds two and three, Allan responds with a quiet confidence. "We are taking it one step at a time and I don't want to get ahead of myself. However, I must really thank the South African government for putting some really good enabling legislation on the table which runs until June 2021." ♦

**In the wake of the economic downturn, 2008 saw the collapse of a number of international acquisitions, both strategic and financial. This was not good news for private equity (PE) and there was significant value destruction by public fund managers as share prices declined**

## A barren year

"The credit crisis has reshaped the corporate landscape and the PE industry with investors being cautious before committing funds," says Sean McPhee, Leader of the Private Equity Group at Deloitte. "This resulted in fewer deals being concluded and, as liquidity dried up, the size and nature of deals changed; the focus has been on preserving and enhancing the value of the portfolio."

According to the seventh forward-looking Deloitte Private Equity Confidence Survey (PECS) entitled *The calm after the storm? Cautious optimism in private equity industry*, conducted in collaboration with the Southern African Venture Capital and Private Equity Association (SAVCA), among investment professionals in the PE industry, there is a feeling of optimism among PE practitioners on the outlook for the global economy. Sixty-six percent of respondents expect the economic climate to improve and 72% anticipate an increase

in deal volumes over the next 12 months.

"This is a more optimistic view since the previous survey in the first quarter of 2009," continues McPhee.



Sean McPhee

This improved market sentiment is, however, tempered by caution as to how the economic landscape will develop. It is unclear what effect the level of economic stimulus packages deployed by western governments will have on economic growth rates in the global economy and the ability and appetite of banks to extend liquidity to support individuals and companies.

This is evidenced by a comparatively low 37% of respondents expecting an increase in multiples and an overwhelming 64% expecting no change in competition for assets. This suggests that fund managers are planning to adopt a targeted approach, sticking to known sectors and entities, and being unwilling to be drawn into the bidding wars which occurred prior to the downturn.

There is less appetite for exits than acquisitions over the next 12 months. The theme of caution and uncertainty contin-

ues with fund managers' approaches to exit strategies. While 72% of respondents expect an increase in deal volumes over the next 12 months, only 40% expect the volume of exits to increase.

The conclusions from this are twofold:

- A significant portion of respondents clearly believe that maximum value will not be achieved from exiting over the next 12 months as the market settles and boundaries are re-established in regard to acceptable purchase and lending multiples on transactions.
- The majority of acquisitions will still be made from trade sellers. Though 29% of respondents expect exits to be made to other PE firms, it is expected that the secondary PE market will remain quiet compared to the more established US and European markets.

Seventy-seven percent of respondents expect the combined value of current

portfolio companies to be higher in 12 months. While respondents are not expecting to exit many investments over the next 12 months, it is clear that a growth strategy towards exit is high on their agenda. Time spent on portfolio management remains high and fund managers will continue to look at strategic bolt-on acquisitions and add value to the portfolio companies to position them well for exit.

There may be a shift in attitude to involve BEE further at a fund level as BEE continues to be a major driver of M&A activity and the trend has been towards more broad based BEE transactions. Forty-one percent of respondents expect funds to be black empowered in the next 12 months, the highest level since 2005.

The views of investors on PE-based returns are divided: 21% of respondents believe that PE/VC funds will offer inferior risk-adjusted returns, much increased from a previous high of 8% in previous surveys. But 40% of investors expect to

increase their allocation of funds and 79% of respondents expect that PE funds will outperform the JSE in the medium term.

**"There is less appetite for exits than acquisitions over the next 12 months"**

"The fiscal year 2009 saw a milestone being reached, with over R100bn of funds under management. This clearly shows how the industry has grown and has confirmed PE as a significant asset class," concludes McPhee. ♦

## **Contradictions between the BEE codes and the DTI's (Department of Trade and Industry) Interpretive Guide to the BEE codes are a huge business impediment that has hamstrung a number of private equity deals**

# **Hazy BEE ground rules hampering private equity deals**



Michael Denenga

Michael Denenga, founder of Corporate Counsel a niche consulting company that specialises in financial services law, treasury documentation advice and compliance services and former partner of Webber Wentzel, a leading Johannesburg law firm, said that a lot of private equity funds have held back on possible deals and have delayed the structuring of new funds until there is legislative authority on the matter.

"Clarity is needed as a matter of urgency. The uncertainty around the BEE Codes is ironically hurting the people they are designed to empower."

According to Denenga, the Interpretive Guide's provisions relating to private equity funds directly contradict those of the

BEE Codes.

"It seems the DTI's Interpretive Guide tried to curtail the harsh impact of the Codes' wording by construing the measured entity to be the 'Fund Manager' as opposed to the private equity fund.

"This would make sense if the intention of BEE is to advance the interests of black people and not to direct them as to where they should invest their funds, as would be the case if reference is to the private equity fund. This would mean that an enquiry into the BEE status of the investors would add weight to whether or not the private equity fund is empowered or not.

"At first sight it appears as though the guide will assist in private equity BEE deals



because the measured entity is deemed to be the private equity fund manager and not the private equity fund.

"The Interpretive Guide however, has no legal standing on its own, as South African Law doesn't make provision for post legislative interpretive guides."

What's more, some rating agencies have performed verifications for a private equity fund in terms of the Interpretive Guide but cannot issue certificates based

on their findings because this could be challenged as not authoritative.

"It is possible for a ratings agency to issue a qualified letter, certifying the ratings but providing that such rating was granted in terms of the interpretive Guide as opposed to the BEE Codes.

"Where such a qualified letter is issued, it is arguable that the underlying investment would not be in a position to claim that the shares held by the fund are black

as the assessment was done based on a guideline that effectively contradicts the BEE Codes."

Denenga warns however that there are verification agencies that are willing to issue a certificate in stead of a qualifying letter based on the interpretive guide.

"Funds that receive such certificates, however run the risk that the rating may be challenged as misrepresentation of the BEE status of the fund," said Denenga. ♦

**High-flying, KwaZulu Natal-based AltX-listed construction company, Erbacon Investment Holdings (EIG Group), announced in September a reverse take-over of a major Gauteng civil engineering company, Civcontract Civils (Civcon), in a deal worth R267m**

## Medu Capital cements BEE deal with AltX star

At the same time, Erbacon invited black-owned private equity company, Medu Capital, to acquire a 29,4% stake in Erbacon at a purchase price of 168 cents a share to help it fund the transaction. The BEE transaction with Medu Capital should raise R113m for Erbacon.

The purchase consideration for 100% of Civcon will be settled by way of an initial R95m in cash and the balance by the phased issuing of Erbacon shares to the vendors of Civcon at an issue price of 168 cents a share – subject to certain profit warranties being fulfilled.

EIH was the 79th listing on the AltX market. The construction group listed at R2,75 a share and previously raised R53m through the private placement of 19,38m shares at the same price. This indicates a 38% discount for Medu Capital based on the listing price of Erbacon two years ago.

With more than 20 years construction experience, Erbacon is headquartered, and has built up a strong presence and client base, in Kwa-Zulu Natal. Operating principally in South Africa, its footprint extends from Kwa-Zulu Natal to other regions



Lex Henning

including the Eastern Cape, Gauteng, Limpopo, Mpumalanga and Swaziland.

The group comprises three major divisions namely Erbacon Construction, Erbacon Plant Hire and Armstrong Construction.

Dave Erskine, CEO of EIH Group, said the conclusion of this merger will have a



Nhlanganiso Mkwana

number of long term benefits for EIH. "Civcon, who have been trading in South Africa for the past 29 years, will enable EIH to have the benefit of their strong management and established operations to secure long-term growth for the group.

"In addition, the increased critical mass

of the group will enable EIH to tender on larger contracts which the individual companies might not have been able to independently. Lastly, the inclusion of Medu Capital will now provide the group with a significant strategic shareholder and BEE partner which will further enhance the group's ability to secure work."

Erskine, says post the transaction, Erbacon will be fully compliant with the BEE requirements of the Construction Industry Charter. In addition, the deal will give the enlarged group a wider footprint in the construction industry and allow it to tender more competitively on larger construction projects.

"This transaction projects us into a bigger league of construction firms in SA. At the same time it gives us a toe hold in the lucrative Gauteng construction industry and strong diversification into the private civil engineering sector where Civcon has been active in the mining and heavy industry sector for the past 28 years," he says.

Since its listing two years ago, Erbacon has been one of AltX's better performers. It beat its prospectus forecasts in its maiden results to February this year by nearly 10%, turning in revenue 88% higher than

**"We believe that the merged group has the opportunity to play a meaningful role in South Africa's infrastructure development."**

the previous year at R225m.

One of its first moves was to acquire well-known KwaZulu Natal-based general contracting company, Armstrong Construction, for R78,5m. The transaction was effective from February this year.

It has also expanded its rapidly-growing small plant and formwork division which hires out plant, equipment and formwork. Two new branches have been opened in Lephalale (Ellisras) and Nelspruit this year.

It also operates a highly profitable civil con-

struction division which is involved mainly in non-residential building activity such as concrete structures and buildings, bridge rehabilitation, pipeline construction, township services and bulk earthworks and roadworks.

According to Erskine, the group's projected forward order book to February 2010 post the transaction with Civcon will be in the region of R1,3bn.

Nhlanganiso Mkwana, director of Medu Capital says, "Both EIH and Civcon are established businesses with tracks records of solid profit growth and cash flow generation. The management teams of both companies are experienced contractors who are highly respected leaders in their respective industries. We are happy to play a significant financing role in assisting EIH to acquire Civcon and believe that the merged group has the opportunity to play a meaningful role in South Africa's infrastructure development."

Lex Henning MD of Civcon concludes, "This deal is the culmination of a decision taken, by Civcon's directors 18 months ago, to become BEE compliant. We are very proud to be associated with EIH and MEDU and look forward to a long a mutually beneficial relationship." ♦

**Global research company Evalueserve recently released a white paper highlighting the burgeoning investment opportunities for private equity in the South African infrastructure space**

## Infrastructural shift in private equity

Evalueserve, which has four research centres located in Chile, China, India and Romania, covering multiple industries across every continent, is a globally respected Knowledge Process Outsourcing (KPO) firm.

The paper, entitled *Private Equity Investment in Infrastructure Sector in South Africa*, focuses on the current investment trends in the infrastructure sector in South Africa, the past strategies of PE funds with respect to investments in infrastructure, gov-

ernment plans for the sector and the opportunities these plans provide to PE funds.

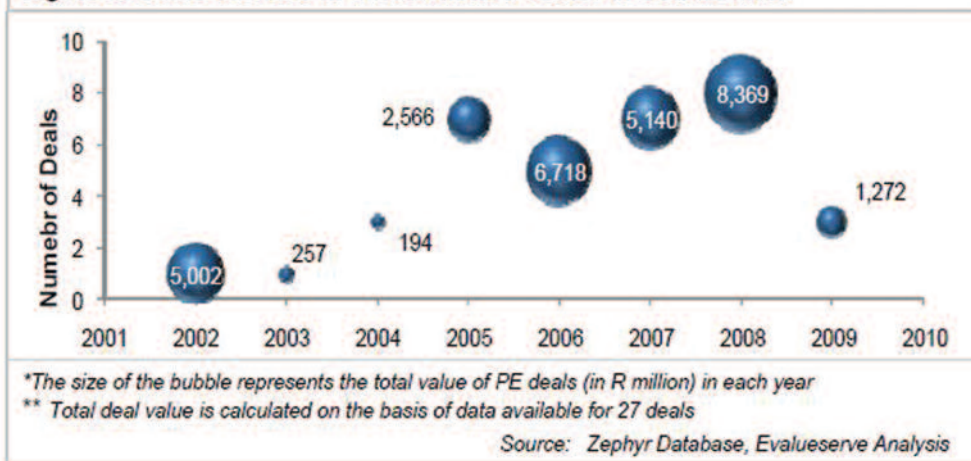
Evalueserve notes that approximately half the deals in the sector since 2002 have been made by international investors. Of these, the US has been the most energetic country, accounting for 35% of the total international investments, largely ignoring the domestic credit crunch. The UK has recently started showing interest in the sector; with two infrastructure sector deals closed by UK

funds in 2009.

Evalueserve believes infrastructure projects are a perfect fit for PE funds in emerging economies. The paper states that "[t]hese projects have long-term revenue contracts (assurance of revenues), cash flows linked to inflation (a natural hedge against an inflationary environment) and offer higher return potential commensurate with higher emerging market risk."

The paper goes on to note that, because

Figure 2: Value of Deals in Infrastructure Sector in South Africa



government has failed to keep pace with an expanding economy, infrastructure is lagging behind and, therefore, the sector remains highly underinvested.

To illustrate this, Evalueserve reckons the South African government plans to spend R939bn between 2009 and 2012 on infrastructure projects (a growth in spend of 15% y-o-y beyond 2010) to address what is an avoidable backlog.

An interesting development in the sector is the rise of public private partnerships (PPPs) which are starting to underpin government's infrastructural objectives.

Evalueserve's research indicates that in the first half of 2007, 51 new PPP projects worth R87bn were announced. Furthermore, government is offering incentives relating to tax benefits, cash grants and funding requirements to encourage private sector participation.

However, PE companies in South Africa have historically been averse to investing in PPP's.

According to Evalueserve this is because the capital commitments required for such projects are much higher than the commitments by PE funds.

"For example, rather than investing in Eskom, a power utility company, PE funds would invest in Buildworks, a construction and engineering firm, or Alstom, a T&D equipment manufacturer. Further a certain amount of political resistance has also discouraged PE funds from making investments in the past. However, given that the government is taking initiatives to strengthen the partnership with the private sector by introducing favourable policies, PE funds may change their investment strategy in the future to include PPP projects."

Evalueserve notes that certain sectors will stand out as the star performers and, unsurprisingly, power stands head and shoulders above all the rest.

R360bn of opportunities across the power sector's value chain can be explored as the highest allocation of government funds within infrastructure has been in the power sector to meet South Africa's additional 20 GW electricity demand by 2025.

Clean technology in South Africa is another segment that Evalueserve sees gained momentum in recent times and it has generated the interest of many international PE funds.

**"[The funds] strategy is likely to shift towards a top-down approach mainly because of the current economic scenario that justifies a shift in focus towards understanding a sector's fundamentals and growth prospects first rather than individual attributes."**

"South Africa's first cleantech PE fund, The Evolution One, launched in September 2008 is targeted to grow to R1bn by mid-2009. The recent announcement by the African Development Bank (AfDB) to set up a R100m clean-energy fund and invest 60-75% of the fund's assets in South Africa also substantiates the attractiveness of the segment."

In conclusion, Evalueserve forecasts that these opportunities might force PE companies to reevaluate their approach to investing, which is traditionally been a bottom up view.

"[The funds] strategy is likely to shift towards a top-down approach mainly because of the current economic scenario that justifies a shift in focus towards understanding a sector's fundamentals and growth prospects first rather than individual attributes. PE funds will adopt an investment strategy that identifies a growing industry sub-segment based on improving industry fundamentals, new or improved technologies, changes in government regulations and industry consolidation. Actis, Kingdom Zephyr, Horizon Capital, Marlow Capital and many other PE funds have started to follow the approach." ♦

Figure 7: Infrastructure Spend Commitment By Government (ZAR billion)





**To assist prospective businesses in ascertaining if they are suitable candidates for venture capital funding, Mark Shuttleworth's local venture capital company, Here Be Dragons (HBD), has compiled a venture capital readiness test. Going live this month, the test can be found online on HBD's website.**

## Online test for venture capital readiness unveiled

HBD has been behind many local success stories including OrderTalk, a sophisticated online ordering solutions company for the food service industry, and Moyo, the highly successful contemporary African food, art, music and culture business, to name a few.

Providing the capital and management resources, HBD has opened many doors for its investment companies as venture capital is a gateway to rapid expansion and possible international success. This makes it the ideal funding for businesses with innovative ideas and original, practical solutions.

"For prospective candidates it is impor-

tant to know the ins and outs of venture capital before applying for backing as it not necessarily the right solution at every stage of business or for all entrepreneurs," says HBD CEO, Julia Fourie.

The HBD test is quick and practical, designed both to educate and prepare potential applicants for what they can expect from venture capital and a partnership with HBD. The test guides applicants through a number of important decisions and points they will have to consider carefully should they wish to embark on a partnership with a venture capitalist such as HBD.

Consisting of three deal-breakers and another 15 questions, the test thoroughly covers the journey of a venture capital investment. Questions such as: 'Will your revenue grow by at least 30% each year?' and 'Are you prepared to part with a significant ownership stake in your business which may result in the loss of control?' are tough choices that need to be made ahead of time. Answering yes to the majority of questions may mean that you are on the right track for venture capital.

To take the test, visit HBD's website at [www.hbd.com](http://www.hbd.com).

### SOUTH AFRICA PRIVATE EQUITY DEALS Q3 2009

NATURE	PARTIES	ASSET	ADVISERS	VALUE	DATE
Sale by	Metorex to Medu Capital	15% stake (37 500 shares) in Vergenoeg Mining	Barnard Jacobs Mellet; Bowman Gilfillan; Webber Wentzel	R108,75m	Jul 29
Acquisition by	Sprit Capital	58% stake in Tidy Files SA	CJM corporate advisers	not disclosed	Jul
Acquisition by	Medu Capital from Erbacon Investment	67,41m pref shares (29,41% economic interest)	PSG Capital; QuestCo Sponsors; Cliffe Dekker Hofmeyr; Read Hope Phillips Thomas & Cadman	R113,25m	Sep 22
Sale by	Mazor to Global Capital	10% stake (12 284 722 shares) in Mazor	Bridge Capital	R27,3m	Aug 7
Acquisition by	Aureas Capital and management	an additional 29% for Aureas and 20% for management in Sandbox		R66m	Aug 26
Acquisition by	MSG Afrika Investment and Helios Investment Partners	INM Outdoors	Deloitte; Edward Nathan Sonnenbergs; Cliffe Dekker Hofmeyr	R1,1bn	Aug 31

## National news

The SAVCA Annual Industry Update and General Meeting was held on September 8. At the AGM Paul Johl stepped down from the SAVCA board and Dave Stadler from Nedbank Capital Private Equity was appointed in his place.

## International round-up

**Reuters** reports that Mauritius plans to become a financial platform for private equity providers eyeing investment opportunities in Africa.

The Indian Ocean nation's finance minister, Ramakrishna Sithanen, said Mauritius' reputation as one of the continent's most stable and consistently high-performing economies made it an attractive option for investors.

"Our plan is to carve out a own niche in the multi-billion dollar private equity industry," Sithanen said at the launch of a private equity conference.

Mauritius' finance industry expanded by ten percent last year, making it the fastest growing sector of the economy, he said. Offshore services have expanded faster than GDP at an average annual rate of 7.6% over the last five years, according to government data.

Despite signs of a global economic recovery, private equity buy-outs are unlikely to come back substantially any time soon.

According to a recent survey by **KPMG**, most private equity professionals expect their industry to be essentially dead through 2010. This could prove over-optimistic if the global recovery stagnates by end-2010 as some expect.

The largest reported challenges continue to be access to financing and the poor prospects for a buoyant IPO market.

**KPMG** notes that: "According to the survey, 58 percent of respondents noted IPO demand won't return until 2011 at the earliest, and 24 percent said they expect companies will avoid the IPO route as alternative sources of funding, such as growth capital, become more popular. Thirty-seven percent of respondents said they expect there will be a demand for public company offerings in 2010, and 6 percent said it was too hard to predict in this economy."

**The Telegraph** in London reports that final touches are being applied to a pipeline of private equity-backed companies as their owners look to seize the opportunity to squeeze through a likely flotation window in the new year.

From retailer New Look to theme-park business Merlin, food group Birds Eye and chemicals company Taminco, businesses are preparing to tap the frothy equities market, where the FTSE 100 has just bounced back above 5,000 points.

The London daily quotes a senior managing director at a big buy-out house who said of the trend: "Listing is like a get-out-of-jail-free card. If you can, of course you would do it."

Private equity investment in financial services companies will increase as valuations become stable and those firms sell off more non-core business units, according to a **Freeman and Co.** report.

Could the Asian private equity market eventually be larger than the one in the U.S.? That was the question posed by **The Wall Street Journal** after attending the 'SuperReturn Asia' conference in Hong Kong.

Responding to a poll, 49% of those attending said the Asian private equity market will overtake the U.S. within the next 40 years.

"The U.S. piece of the market looks quite compromised" in terms of the sustainability of its growth, Tim Sims, Managing Director of Australian private equity firm Pacific Equity Partners, told **The Journal**. "On the Asian side you'll see substantial growth," Sims said, though he added it may be episodic.

That is, of course, in large part due to the growth of the Chinese and Indian economies. Jun Ma, Deutsche Bank's chief economist for Greater China, cast some light on just how speedily these economies are expanding, predicting compounded annual growth for China of 16% over the next 10 years, compared with a 4% annual growth rate for the U.S.

"We forecast that China's nominal GDP will overtake the U.S. within 10 years," he said.

Jason Corcoran in Moscow reports that private equity start-up Quadro Capital Partners has so far raised \$200m (€139m) for its first fund amid signs that the moribund fundraising market in Russia is recovering.

Quadro was formed in April by Giedrius Pukas, the former managing director of Troika Capital Partners.

Blackstone Group LP and its competing buyout firms are entertaining offers to bring companies they own public, seeking to take advantage of rising stock markets, Blackstone President Tony James told **Bloomberg**.

"The equity markets are wide open for us right now," James said at a conference in New York. "Every private equity firm is probably experiencing the same thing."

Successful IPOs may help bring in cash after the spending spree private-equity firms went on during 2006 and 2007, when they announced a record \$1.4 trillion of deals.