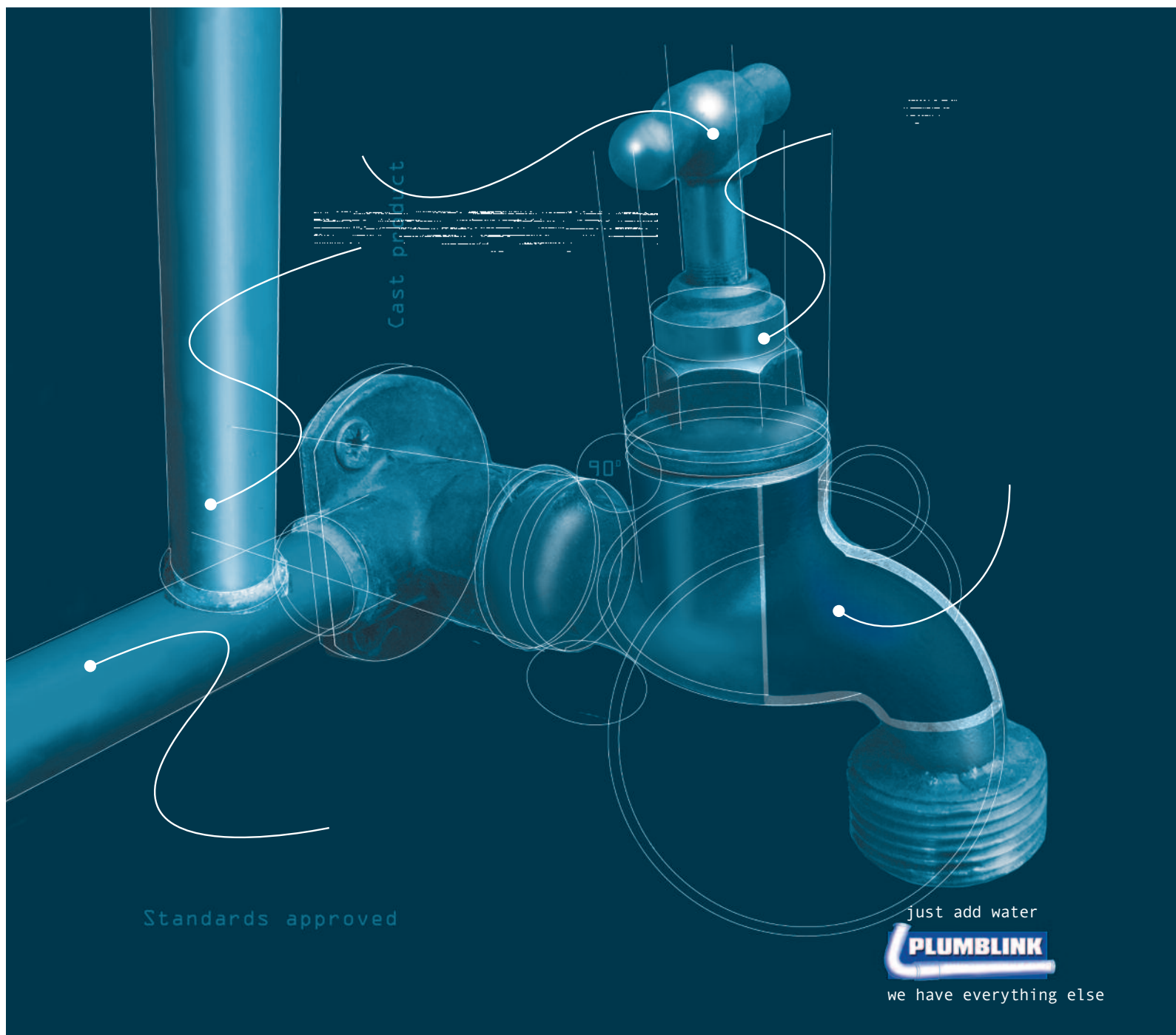

CATALYST

**SA's Quarterly Private Equity &
Venture Capital Magazine**

Vol 2. No 1

March Quarter 2006



Designed to sustain high pressure

Ethos has concluded the buyout of Plumblink, the leading South African plumbing and sanitaryware merchant.

Ethos' strategic contribution as an active shareholder, together with the introduction of well known business executive Yannick Lakhnati as CEO, and the increase of the BEE shareholding to 25%, will refine Plumblink's competitive advantage in what is expected to be a growth market. Yannick was previously responsible for the successful restructuring of Rainbow and will partner with Ethos in creating value in its portfolio companies.

It's been a long time since Private Sector Investment, Foreign Direct

Investment & Government Capital Expenditure all boomed at the same time. With a government budget of R400 billion to eliminate infrastructure and housing backlogs, strong activity in commercial and industrial property developments, and a vibrant tourism industry, one senses that the construction and allied industry sectors are headed for sustainable growth over the next decade.

The Plumblink deal is the 2nd investment in Ethos Fund V and reiterates Ethos' ability to originate high growth, value-driven transactions.

www.ethos.co.za



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*The PricewaterhouseCoopers Banking Survey has ranked Ethos South Africa's leading private equity firm for five consecutive years.

TEFFANOVA 8871



From the Editor's desk

JANE STRACHAN

This has been a slow quarter for major deals in the private equity arena, but there is no doubt that the profile of private equity in the South African economy is on the up and up. While work remains to be done in terms of educating the public at large and the financial sector in particular about the benefits of the asset class, the word is getting out. And it might not be too long before parts of the rest of Africa start coming into their own too as destinations for private equity.

Several pieces in this issue of *Catalyst* back up the view private equity is on a roll. To wit:

- Ernst & Young 2005 M&A survey: The attraction to private equity is understandable as it has delivered stellar returns in recent times.
- Deloitte and SA Venture Capital and Private Equity Association (Savca) Confidence survey: Investors continue

to view private equity as an asset class that provides returns which outperform the relevant JSE index as well as deliver superior risk-adjusted returns.

- Chris Ewing, chairman of law firm Cliffe Dekker: The recent Waco sale highlights the maturity of the South Africa private equity industry.
- Peter Schmid, Actis Africa: The African private equity space is growing exponentially, with numerous new opportunities opening up in many countries around the continent. Africa is the last major investment frontier.

Shortly after *Catalyst* goes to print the authoritative annual KPMG and Savca private equity survey will hit the streets and this too is likely to confirm the industry's relevance.

That's not to say that there aren't problems – the industry is well aware that there is work to be done and challenges to be faced. Nevertheless, this is an

exciting time to be working in and writing about this important sector.

Private equity in Africa

With a few exceptions the global private equity industry has not paid too much attention to Africa. In this issue we learn why some players – specifically Actis and Kingdom Zephyr – believe Africa offers great prospects for those with the ability to manage it.

The future of *Catalyst*

All commercial publications, this one included, are reliant on advertising. Unfortunately *Catalyst* has not received the support we had expected. This may mean the industry has little interest in reading about itself and what's popping, so be warned – the next issue may be the last.

As usual, all feedback is welcome, so if you have any ideas on how we can improve *Catalyst*, please contact Jane Strachan at jstrachan@palimpsest.co.za or David Gleason at david@gleason.co.za. ❖

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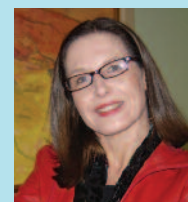
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David Gleason

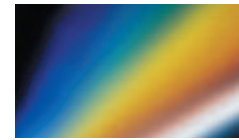
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Private equity in rest of Africa ready to rock?

South Africa has the lion's share of private equity on the continent, but a number of macro factors are converging to create major opportunities elsewhere in Africa.

The African private equity space is growing exponentially, with numerous new opportunities opening up in many countries around the continent, says Peter Schmid, who recently assumed responsibility for Actis's African private equity business. He was formerly responsible for managing Actis in Southern Africa. "In our view, Africa is one of the last major investment frontiers," Schmid says.

Mark Jennings, a Managing Principal of Kingdom Zephyr Africa Management (Kingdom Zephyr) and Chair of the African Venture Capital Association (AVCA), agrees. "There is much excitement about the so-called BRIC countries (Brazil, Russia, India and China), but return on investment in Africa has historically been among the highest in the world and private equity players are starting to realise that if they get it right, there is enormous potential here." Kingdom Zephyr is also an important African player.

But while interest and investment are increasing, South Africa remains by far the largest private equity market in Africa. Figures from the AVCA yearbook for 2005 show that US\$1bn was raised for private equity in Africa up until 2003 and \$565.6m was raised in 2004.

However, of this 77% and 60% respectively was raised in South Africa. After this country came Mauritius, raising \$100m in 2004, followed by Tunisia with \$51.3m. It should be noted that that several private equity funds domicile themselves in Mauritius but invest across Africa.

In terms of investments made, South Africa accounted for 92% of investments made in 2004, while the rest of Africa totaled \$103.9m. After South Africa came Nigeria, with a total of \$47.9m invested, or 46% of total private equity investment outside South Africa. 2003 showed more balance, with Nigeria, Kenya, Morocco

and Egypt each accounting for close to 20% of funds invested.

For organisations such as Actis and Kingdom Zephyr, this just means that the continent is bursting with untapped potential.

"The demand from China and India for oil, gas and other resources, on the back of buoyant consumer markets and increased political stability in many areas, is driving prospects for investors," Schmid says.

He says that apart from South Africa, West Africa in general and Nigeria in particular offer the most potential. Angola and Ghana also, in Actis's view, present



Mark Jennings

opportunities, as both have growing consumer markets. North Africa as well, he believes, is looking good, with Egypt showing 5-6% GDP growth in a transforming, more market-related economy. The challenge in Egypt, though, is pricing, with a wall of Gulf money looking for a home. East Africa is seen as a smaller market with more strategic, niche opportunities.

He believes, however, that in Nigeria in particular there is good reason for optimism, notwithstanding possible turbulence in the run-up to the 2007 elections. "We believe President Olusegun Obasanjo and

his cabinet are genuinely committed to rooting out corruption and reforming the Nigerian economy."

And a more positive view of West Africa is driving a substantial increase in appetite among South African and international banks and funds in the region, as well as increased interest from South African corporates.

"There is an initial wave of interest which is only likely to accelerate," Schmid says.

But, he adds, successful private equity investment across a large and diverse continent takes on-the-ground teams and deep local knowledge to mine and assess the prospects. In his view the risks increase exponentially when done by remote, from a distance, and Jennings concurs.

"Dealflow opportunities across the continent are strong and steady but we are highly selective," Schmid says. "A key advantage we have is that due to our expanded presence, our dealflow tends to be more expansive, enabling us to be more selective in choosing the best opportunities to invest in. Our permanent local teams in Johannesburg, Lagos, Nairobi, Cairo and Casablanca work with Actis's global sector specialists to find and unlock value. This is a formula that works very well for us."

The Kingdom Zephyr approach is a pan-African one in which the company targets investments with the potential to expand across borders.

Says Jennings: "Looking at the continent country by country, apart from South Africa and Nigeria the economies are still relatively small and we believe that the best investment prospects exist where one can fairly quickly grow a business to a significant size and then, when it comes time to harvest the investment, be sure of a suitable exit; yet it is difficult to predict, with any degree of certainty, what a particular country's

M&A Dealmaker of the Year

Rankings by deal value - 2005 *

Rank	company	Deal value R'm	Market share
1	Rand Merchant Bank	55,340	9.79%
2	Goldman Sachs	54,028	9.56%
3	Absa Corporate & Merchant Bank	44,055	7.79%
4	Nedbank Capital	43,981	7.78%
5	JP Morgan	36,056	6.38%
6	Standard Bank	34,920	6.18%
7	UBS	31,178	5.52%
8	KPMG	29,991	5.31%
9	Deutsche Bank	29,463	5.21%
10	Rothschild	28,438	5.03%
10	Barclays Capital	28,438	5.03%

*Investment advisers in corporate Merchant & Investment Banks and others claiming this category



Two in a row

Rand Merchant Bank has just been ranked M&A Dealmaker of the Year for the second year running. We also topped the *Investment Adviser – General Corporate Finance* (by transaction value) and the *JSE Sponsor* (by transaction value) categories. This illustrates the growing number of companies entrusting their corporate activity to our team.



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business environment is going to be like in five to ten years time. A multi-country strategy helps ease that uncertainty.”

“Therefore we believe having a broad footprint enhances our prospects.” It also, he admits, mitigates some of the risk associated with operating on the continent.

One of Kingdom Zephyr’s pan-African investments was the cellphone operator Celtel. It exited this investment in 2005 when Celtel was sold to MTC of Kuwait for a total of US\$3.4bn.

Schmid concedes that amid the optimism there are difficulties in these ‘new’ markets, with West Africa being perhaps the most challenging.

“There is of course the historical issue of corporate governance and the potential for political interference, which have ensured an historical lack of investor appetite there, impacting on the ability to exit investments. Then one has to get through the local bureaucracy, be able to identify the right local partner/management and monitor one’s investment. And in all of this one has to be sensitive to local cultural and business practice norms.”

Another key risk is the structuring of legal agreements – one is dealing with different legal systems, which in some cases are unreliable, and one has to choose the right jurisdiction and structure to protect an investment.

Jennings adds that a further challenge comes in attracting good management to run acquisitions. “Competent management is non-negotiable in private equity investment and it can be difficult to find and retain the best people, although this is improving, with South African managers looking north and Africans at home and abroad showing interest in the right opportunities.”

Actis has approximately US\$1bn of funds under management in Africa, and has been investing in the region for over

55 years through its origins as part of CDC Capital Partners. The company’s typical investment range on the continent is US\$10m - \$100m, working with co-investment partners on larger investments. They invest in all sectors with a particular focus on consumer products, financial and other services, general manufacturing, mining, oil and gas and telecommunications.

Actis has raised the Actis Africa Fund 11 and Canadian Investment Fund for Africa with a combined total expected to be about US\$550m, of which approximately 30% is already invested, says Schmid. The most recent of these was a follow on investment in the international energy company Candax Energy Inc which, has a management office in Tunis and holds a number of oil and gas interests there. Actis has invested a total of \$44m in Candax.

It has a majority interest in one of the largest consumer groups in Nigeria, UAC, a joint controlling stake in the telecommunications company Starcomms, interests in several junior mining companies across the continent and a number of investments in South, East and North Africa.

Kingdom Zephyr is a joint venture management company between Kingdom Holding Company, an investment vehicle headed by Saudi royal, HRH Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud, and Zephyr Management LP, a New York-based asset management firm focused on international and emerging markets.

The principal offices of Kingdom Zephyr are in Washington DC, Johannesburg and Accra. Zephyr has to date raised and helped invest more than \$300m in African private equity funds. Its first, in 1995, was the South African Capital Growth Fund with Capital Partners (now Brait) and the second was the Capital Alliance Private Equity fund with African

Capital Alliance in Nigeria. It then took over management in 2000 of the New Africa Opportunity Fund, sponsored by the Overseas Private Investment Corporation (OPIC), which was renamed the ZM Africa Investment Fund (ZMAIF). This fund is coming to the end of its life with Zephyr this year divesting from Atio Corporation, a South African based ICT company, and with previous divestments from Celtel and FP du Toit, a Namibian based transport and logistics company.

It has now launched a \$122.5m fourth fund (PAIP/PCAP) jointly with Kingdom Holdings. Other investors include the International Finance Corporation, the Development Bank of Southern Africa, the Netherlands development finance institution FMO, Botswana Insurance Fund Management, the French development finance institution Proparco and Zephyr management. Three investments have already been made from this fund – Celtel, which was successfully exited six months after the investment was made, Letshego which is a Botswana-based micro-lender now operating in Swaziland and Uganda and set to commence operations in Tanzania and Zambia, and Ecobank Transnational Incorporated a banking group operating in 13 countries in West and Central Africa.

The third notable pan-African private equity player is Emerging Markets Partnership, based in Washington DC but with offices in Hong Kong, Singapore, London, Johannesburg, Abidjan, Bahrain and Brunei. EMP and its affiliates currently serve as the principal adviser or manager of private equity funds having \$5.7bn in committed resources, including the \$407.6m AIG African Infrastructure Fund. It is also an adviser to the Emerging Africa Infrastructure Fund, a \$305m fund established by a group of public and private sector institutions to provide long-term debt to private sector infrastructure ventures in sub-Saharan Africa. ♦

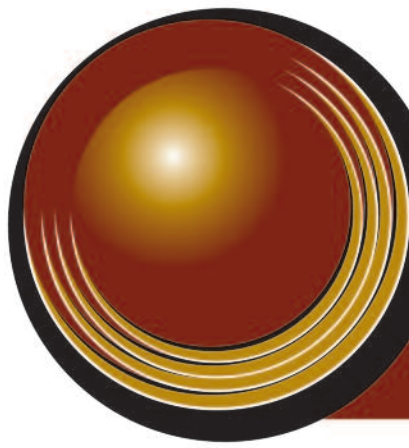
African round-up

Reviewing the regulatory environment on the continent: 2006 is expected to be a year of growth for the African Venture Capital Association (AVCA). Top of the association’s priorities is the review of the regulatory environment for venture capital and private equity in Africa, aimed at creating a more enabling environment for

venture capital in Africa. The organisation says institutional regulations in many countries are lagging behind the needs of the marketplace and it is time for the main players in the industry to get together and move for change.

Pan-African PE investment report: AVCA’s major achievement in 2005

was production of the new Investment Activity Report for Africa, the first pan-African study of its kind comparing investments across the region. It was produced in partnership with Thomson Venture Economics and PricewaterhouseCoopers. For highlights visit <http://www.avcanet.com>.



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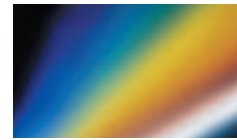
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AVCA 2006 conference:

Dakar in Senegal 5-8 November.

Greek fund targets Africa: Athens-based private equity firm Vectis Capital is launching a €70m private equity fund in West Africa with special focus on Nigeria. The Vectis West African Advancement Fund will acquire minority stakes based mainly in West Africa, particularly in Nigeria, with a typical investment range of €3-8m. It says now is the "perfect time" to invest in this region as it foresees general economic growth for the next five years, especially in infrastructure and industrial companies.

Ghana's budget favours venture capital:

New policy initiatives and incentives to boost private sector development were announced in Ghana's 2006 Budget Statement. It outlines a number of new fiscal incentives for the private equity and venture capital industry, including tax exemption for five years, losses carried forward for five years and relief from stamp duty in the year of investment. For private sector financial institutions investing in venture capital funds, a 100% tax rebate is promised.

Pension reform in Nigeria disappoints PE industry:

Hopes for changes to pension regulations

in Nigeria have not produced the outcome sought by the private equity industry. In 2004 a major review of the Nigerian pension scheme resulted in the Nigerian Pension Reform Act, overseen by the National Pension Commission (PenCom). With the reform expected to generate savings of more than Naira 130bn (US\$1bn) per year, the investment community has battled to expand investment guidelines for the funds. Fund managers have actively engaged PenCom in dialogue about the relative dearth of investment outlets in Nigeria but despite these efforts, draft guidelines do not formally include private equity as an allowable investment asset class.

Supporting East African SMEs: A venture capital fund to support small and medium scale entrepreneurs in East Africa is to be set up by the East African Development Bank. This is in recognition of the fact that "vibrant capital markets are a prerequisite for sustainable development". The Bank is the leading development bank in the region.

Aureos West Africa Fund sets up in Senegal

Venture capital outfit Aureos West Africa Fund has opened for business in Senegal, looking to invest in SMEs principally in Senegal, Nigeria and Ghana. Part of Aureos Capital, AWAf is

offering flexible forms of financing from a minimum of US\$500,000 to a maximum of US\$4m. It will concentrate on the service sector, agriculture, services in the gas and oil industries, manufacturing, healthcare, property and telecommunications. The fund, with a total capitalisation of US\$50m, is backed by an alliance of development finance institutions including AVCA members the Commonwealth Development Corporation (CDC) and the Norwegian Investment Fund for Developing Countries (Norfund).

IFC buys Commercial International Bank of Egypt

The International Finance Corporation is to buy a \$23m stake in Cairo-based Commercial International Bank of Egypt. This will give it about 2% of the bank's capital out of a total of 18.7% that was sold in February by National Bank of Egypt to a consortium of investors, led by Ripplewood Holdings, LLC, a U.S.-based private equity firm. This transaction follows the Egyptian government's policy of privatising banks. The 18.7% share was the government's remaining stake in Commercial International Bank. ♦

Source: African Venture Capital Association

Looking for a private equity manager?

You have funds to allocate and you're thinking about private equity, but how do you go about selecting a private equity firm? Whether you're in South Africa and thinking about going into private equity for the first time or you're offshore and don't know who's who in this country, there are certain key factors to consider and questions to ask.

Brait Private Equity has distilled the essence of successful third party private equity management into ten clearly defined points, says CEO John Gnodde.

For Gnodde, the first thing to look for is a solid, sustainable track record – how many companies has the firm invested in over how many years, with what sort of IRR? "In this respect we

have invested in more than 50 companies over 14 years with an IRR of more than 30%, on an aggregate basis," he says.

Second, a diversified investor base. "At the same time, it's a good indicator of a firm's ability if it has investors who have participated in more than one of its funds," Gnodde adds. "We have managed money for both international (60%) and South African (40%) investors over

the past 10 years, with a core of 25 key investors."

Then, critical in South Africa, is a coherent empowerment strategy.

Number five is the firm's ability to bring on board senior industrial advisers – experienced people who can come in on individual investments at an operational level to ensure value maximisation.

Catalyst



A further vital factor is the ability to originate deals. This leads to number seven: a diversified portfolio, which can't happen without number eight, a large, active pool of capital. Gnodde says Brait has more than R5bn in committed funds to date, with Brait 111 being South Africa's largest single fund to date. Both Brait and Ethos Private Equity are raising new funds right now and it remains to be seen how these new ones measure up.

And, once funds have been raised and investments managed over the requisite term, it comes time to exit, so an efficient

and diverse exit environment is central to the successful private equity proposition, whether it be through IPO, trade sale or leveraged recapitalisation.

On a macro level, various sound economic fundamentals need to be in place too – one needs an efficient and growing climate. "We certainly have this in South Africa: the fundamentals are healthy and regulatory processes are strong."

One might add a few of the additional criteria employed by some investment managers; these include: the investment strategy for the particular fund in which

they are looking to participate, the culture and values of the private equity firm (the general partner), remuneration structures proposed by the general partner and the needs and expectations of co-investors in the fund.

With the number of private equity funds operating in the South African market, there is now more choice than ever available, making the selection process more difficult. The prudent investor will take into account most, if not all, of the above factors in making this important decision. ♦

Ethos exits Dunlop stake to Indian buyer

The sale of leading tyre manufacturer Dunlop Tyres International to Indian-listed Apollo Tyres has been finalised.

An Ethos-led consortium, including management, sold the business to Apollo earlier this year in a deal reported by the acquirer in India as the rupee equivalent of close to R400m. It was Apollo's first major global acquisition, moving it into position as a significant global player in the tyre industry. The local consortium will, however, retain some of the Dunlop assets.

The history of this transaction goes back to 1998, when Ethos purchased BTR's 56,45% of JSE-listed BTR Dunlop Ltd for R2.05 per share (R156.8m), and this shareholding increased to 57,5% as a result of a share buy-back programme. The company was subsequently renamed Dunlop Tyres International.

An Ethos-led consortium then purchased the remaining 42,5% shareholding in 2002 in a public-to-private transaction, delisting the business. The price per share was R4,03.

Subsequent disposals of non-cores including assets in South America, Malaysia and the Industrial Products division resulted in the realignment and

strengthening of Dunlop through reduction of debt and facilitated a return of capital to shareholders.

Ethos funded the delisting and imple-



Eugene Stals

mented a significant growth strategy. It facilitated a capital injection by arranging an innovative debt package consisting of senior debt, expansion debt, mezzanine debt and an export debtors' funding programme, together with a term

working capital facility totaling R670m. During 2004, the company acquired the rights to the global Dunlop brand name.

In April 2006 the Ethos-led consortium disposed of its equity interest in the South African and Zimbabwean businesses to Apollo in a three-phase payment deal. The consortium has elected to retain meaningful assets which include 25% of Dunlop Nigeria (listed on the Lagos Stock Exchange), property assets in Zambia and the global rights to the Dunlop brand.

Ethos partner Eugene Stals comments: "Management's leadership, together with innovative funding arrangements, facilitated Dunlop's initial restructuring and subsequent growth story, ultimately resulting in the recognition by an international company of this attractive asset and the inflow of foreign capital into South Africa."

Since 1998, production at Dunlop has increased 79% in volume terms and the mix towards high performance tyres has enabled Dunlop's export programmes into Europe, the UK and Australia to continue, despite the challenges presented by the strong rand. ♦



Brait tops the poll and is voted 'best PE firm in Africa'

Brait's private equity business has been voted as the "Best Private Equity Firm in Africa for 2005" by *PrivateEquityOnline* and *Private Equity International*.

PrivateEquityOnline and *Private Equity International* canvass the opinion of their global readers on an annual basis to identify the major global private equity firms. Readers are mainly global fund managers, investors, bankers, advisers and other service providers.

A representative of the poll's organisers told *Catalyst* the vote took



John Gnodde

place online during January and was marketed through the organisers' proprietary mailing lists and on-site adverts and newsletter adverts. "The only rules in place were that you could not vote for your own company or a member of your company and you could only vote in each category once. There were no judges, panels or shortlists – whichever firm or person achieved the highest number of overall votes, as counted by us, won each category. Effectively, the awards were for the global private equity industry, as voted for by the global private equity industry."

Detractors point out that as the poll was conducted online, there was no guarantee about the source of the submissions and that proper auditing of votes was not possible.

But Brait is nevertheless chuffed. Says Brait Private Equity CEO John Gnodde: "The voters in this award are our global private equity peers and we are honoured to have received this vote of confidence from the broader private equity

community. Moreover, it is testimony to the growing recognition of private equity as an asset class in our region and the performance of South Africa on the world stage that has led to Africa's participation in this global survey. An award like this confirms Brait is doing the right things in the business but also motivates us to continue delivering great things into the future."

In line with the rapid development of private equity in regions outside of the relatively mature markets of North America and Europe, the awards this year covered Africa, the Middle East, Latin America and Asia for the first time.

The organisers of the awards say one of the satisfying aspects of the poll was the "impressive swathe" of votes recorded in the Asia/rest of the world segment. "This part of the poll was greatly expanded from 2004, reflecting a keen interest in the rapid development of private equity in regions outside the relatively mature markets of North America and Europe." ♦

The other awards included:

Global awards

Private equity personality	Henry Kravis
Large buyout firm of the year	The Blackstone Group
Venture capital firm of the year	Kleiner Perkins Caufield & Byers
Buyout of the year	Hertz
Venture investment of the year	Skype
Exit of the year	Skype
Fundraising of the year	The Blackstone Group
LP of the year	AlpInvest Partners
Secondaries firm of the year	Coller Capital
Fund of funds of the year	HarbourVest Partners

Europe awards

European LBO firm of the year	CVC Capital Partners
UK private equity firm of the year	Graphite Capital
Best law firm (fund formation) in Europe	SJ Berwin
Best law firm (deals) in Europe	Clifford Chance
Best debt provider in Europe	RBS
Best M&A advisor in Europe	Goldman Sachs
Best placement agent in Europe	MVision

North America awards

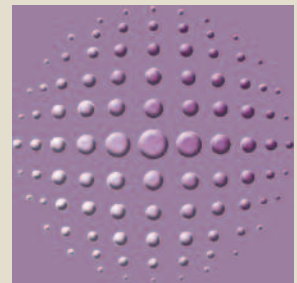
North American LBO firm of the year	The Blackstone Group
Best law firm (fund formation) in North America	Debevoise & Plimpton
Best law firm (deals) in North America	Simpson Thacher & Bartlett
Best debt provider in North America	JP Morgan
Best M&A advisor in North America	Goldman Sachs
Best placement agent in North America	Credit Suisse

Asia and rest of world

Asian LBO firm of the year	Carlyle Group
Australian private equity firm of the year	CHAMP
Chinese private equity firm of the year	CDH Investments
Indian private equity firm of the year	ChrysCapital
Japanese private equity firm of the year	Unison Capital
Middle Eastern private equity firm of the year	Abraaj Capital
Latin American private equity firm of the year	Advent International

The beauty of winning an award
in our industry is that our
investors and partners have to profit
before we can.

Voted Best Private Equity Firm in Africa 2005
by Private Equity Online and Private Equity International

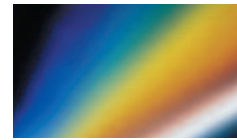


**THE GLOBAL PRIVATE EQUITY
AWARDS 2005**
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International

We are proud to announce that Brait has been voted the
“Best Private Equity firm in Africa” by our global peers in the
Private Equity Online and Private Equity International reader
poll, which saw over 20 000 votes cast.
This award, like everything we do, is dedicated to our investors
and partners. Only when they succeed, do we succeed.



Private Equity Specialised Funds Group Investments Corporate Finance



Plumb deal for Ethos Fund V

An Ethos Private Equity-led consortium has acquired plumbing and sanitaryware company Plumblink SA from a number of sellers, including Investec. This transaction is one of the maiden investments in Ethos Fund V, which will ultimately hold 50,1% of the shares. The deal value is undisclosed.

Other consortium members include existing and new management, and ISS, a 100% black-owned business.

The shareholding is being structured to include a 25% BEE component through the company's existing BEE shareholders, ISS – Jethro Mbau and Zolile Maqetuka – and other broad-based BEE, which will allow Plumblink to capture regional and national government tenders as well as additional private sector opportunities. Jethro Mbau of ISS comments: "As a fully-funded black empowered company, Plumblink will be ideally positioned to participate in the significant government led infrastructure

upgrade plan and the provision of plumbing related products to local and regional government bodies."

At the same time, in something of a coup for Plumblink and its owners, Yannick Lakhnati has taken over as the new CEO. Lakhnati was formerly CEO of Rainbow Chicken and COO of Richemont.

Ethos partner Shaun Zagnoev says Plumblink is a quality asset which is expected to go from strength to strength, given the significant planned infrastructure spend by Government in coming years and the increased confidence and anticipated growth in the housing and construction industry. ❖



Yannick Lakhnati

RMB CORVEST, TANDEM CAPITAL TO FUND CHEMSPEC MANAGEMENT BUYOUT AND BEE INVESTMENT

RMB CORVEST, a private equity business in the FirstRand Group, and Tandem Capital are to fund a R205m management buy-out of and BEE investment into one of SA's leading paint manufacturers, Chemical Specialities (Chemspec).

Chemspec is the third largest paint manufacturer in South Africa, behind Plascon and Dulux. It manufactures and distributes paint in the industrial, automotive and decorative markets and is best known for its retail network of 'House of Paint' stores.

RMB Corvest will back existing management, together with a BEE component through Tandem Capital, to buy the business from the Dykins family. The deal follows a decision by Tim Dykins and his father Peter to retire from the business.

Tandem Capital is an empowerment investment group

owned by RMB Corvest, Safika Holdings and the Olwethu Trust, the beneficiaries of which are the employees of companies in which RMB Corvest and Tandem has invested. 40% of these beneficiaries are black women. Safika manages Tandem, which has already concluded numerous empowerment transactions.

RMB Corvest executive and Tandem director Stephen Brown said the group was attracted to the deal due to Chemspec's strong growth potential. "Chemspec has an established brand in the retail sector, and a strong market share in the industrial and automotive sectors. These factors, coupled with the parastatal, OEM and construction tenders that will now be available to the company through the BEE deal, puts the company in a very strong position in the coatings industry," Brown said.



Waco deal highlights maturity of SA private equity – Cliffe Dekker

The recent Waco sale highlights the maturity of the South Africa private equity industry, says Chris Ewing, chairman of law firm Cliffe Dekker.

The acquisition of Waco by CCMP Asia clearly illustrates the appetite which foreign investors now have for investment in South Africa and particularly for investments which they can control, says Ewing. “Private equity definitely fits the bill.”

Cliffe Dekker was the legal advisor to CCMP Asia in the Waco transaction.

Ewing says that, as all in the private equity industry know, identifying and bringing to fruition the best possible exit has always been one of the major issues for private equity investors. “Waco has demonstrated that a sale to a foreign investor is indeed a possibility.”

“In addition, now that the JSE is performing so strongly, exit by way of a listing is an option, whereas previously, when performance wasn’t so great, dull share prices offered little incentive to go this route.”

He says the other major exit avenue is provided by the empowerment environment as BEE companies scour the market for good investments. And, of course, BEE is also driving the upfront investment leg of the private equity cycle.

“The exit problem is one which no longer needs to trouble private equity investors as there is now a broad choice of possible strategies, all of which carry with them the likelihood of success in a booming market.”

Ewing does add, however, a note of caution. While the Waco exit drew attention to South Africa as a location for foreign private equity investment, there are some issues that require addressing in order to make this an even more attractive destination for the international private equity market. These include eliminating exchange controls, though this is “not nearly the issue it used to be,” and, importantly, getting rid of Secondary Tax on Companies (STC).

“Foreign investors have difficulty understanding STC,” he says. “It’s not as if it is a withholding tax on which they can receive credit at home. They don’t like it.”

He also says that s38 of the Companies Act needs to be addressed so that companies can use their own funds in private equity transactions. This would facilitate dealmaking tremendously, particularly in BEE deals.

“Nevertheless, while South Africa’s tax regime, exchange control and STC may discourage investment, properly designed structures can alleviate the tax difficulties and make South African investments attractive to foreign buyers.”

Cliffe Dekker believes that there will continue to be a need for innovative



Chris Ewing

structures for transactions which combine private equity with BEE. The firm has available the expertise of DLA Piper Rudnick Gray Cary (DLA Piper), the global law practice with which it (Cliffe Dekker) has an exclusive alliance in South Africa and is able to draw on that expertise to investigate structures currently used in Europe and the USA for private equity transactions.

Despite the need for change in some areas, Ewing says the Waco transaction demonstrated to the international market that the domestic private equity market is as well developed as that in, for example, Australia and the Far East. “There was some surprise when the offshore investors saw the sophistication of the systems here, how smoothly the transaction went and how quickly it was closed under enormous time pressure.”

Cliffe Dekker has been involved in South Africa for many years, dating back to before it was even called private equity. “We have in fact been involved in the private equity deals of almost all of the country’s private equity players in recent years.” These have included, in addition to advising CCMP Asia on Waco:

- Lead adviser to Net1 Applied Technologies in its listing on the Nasdaq - the first such listing of a South African private equity company on that market and part of an innovative structure designed by Brait;
- Adviser to Standard Bank in the acquisition of Defy Limited;
- Adviser to Pamodzi in the acquisition of a share in NamiTech;
- Adviser to Kagiso in the acquisition of an interest in Matrix Vehicle Tracking;
- Adviser to New Africa Mining Fund in the acquisition of Veremo Holdings;
- Adviser to ABSA Bank in the establishment of the Mvelaphanda Private Equity Fund;
- Adviser to First National Bank in the establishment of the Momentum Progress Fund;
- Adviser to RMB in the establishment of Kagiso Strategic Investments; and

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■ Ongoing advice to the ABSA Incubator Fund.

"It has been very rewarding over the past years to see the industry mature in the way it has. Our involvement began right back in the mid 1980s when the entity that is now Ethos Private Equity did one of its earlier transactions, with a company then known as McKinnon Chain and Cliffe Dekker acted for the

management in that private equity transaction when there wasn't really a private equity industry in this country.

"There were MBOs taking place, often as a result of multi-nationals exiting due to apartheid, but even when there was what is now acknowledged to be private equity as part of the transaction, it was not acknowledged in the way in which private equity is recognised nowadays.

"Today it is still a relatively small industry, but it has some outstanding players with good track records."

He predicts that, in a few years, private equity will consistently incorporate management, the introduction of BEE partners and funding from a private equity investor with transaction and funding structures becoming increasingly important and more and more complex. ❖

Fired by passions

Malcolm Segal, outgoing chairman of the Southern African Venture Capital and Private Equity Association (SAVCA), is passionate about classical music, good wine and cycling. He is also, fortunately, passionate about private equity.

His involvement in private equity came as something of a second career for him: he was a mainstream accountant to start, working his way up to the position of executive chairman of Grant Thornton chartered accountants and business advisers.

It was during this time, though, that his thoughts turned to growing businesses.

"The focus of Grant Thornton then was primarily on family owned and controlled companies," Segal says. "I found the notion of this type of enterprise fascinating – taking something small and building it into something great – and was in fact often invited to get more involved in developing those businesses, which obviously I couldn't do at the time."

But the interest grew and he reached a point where, after an exciting and successful career at Grant Thornton, he turned to entrepreneurship. When he joined the accounting firm in 1981 it had one office with 70 people when he left in 1997, there were seven national offices and around 700 people, with a diverse service offering. He doesn't say so, but he is widely regarded as having been the driver behind this transformation into a larger, broad-based financial services organisation.

"But the time came when I felt the entrepreneurial blood in me needed expression. I love the energy, the passion and the commitment that come with



Malcolm Segal

creating and building businesses."

He became a founder member of private equity firm MDM Growth Investments, which listed on the JSE in 1997. When the sector fell out of favour with investors and the shares traded at massive discounts to net asset value, it was decided to delist and focus the private equity fund on servicing the smaller-end clients of the then independently listed Nedcor Investment Bank (NIB).

In late 2005, Sasfin Bank acquired NIB's interests, giving birth to Sasfin Capital. Malcolm was appointed head of Private Equity at Sasfin Capital and an executive board member of Sasfin Holdings and Sasfin Bank.

His involvement in SAVCA came out of a belief in the power of industry representative bodies. He had seen the

educational, unifying and lobbying power of SAICA and the benefits it brought to the accounting profession and believed that the private equity/venture capital organisation founded by Jo' Schwenke could ultimately have the same sort of impact.

In the four years under his chairmanship, Segal has seen SAVCA continue to evolve into an organisation that ensures that the industry has an ever-increasing and meaningful profile in the business community at large. He steps down in June but hopes to continue to play a role in the ongoing development of the industry.

What he loves most is helping companies to grow, encouraging entrepreneurs to discover their full potential and giving them confidence through strong mentoring. It's an approach he brings to Sasfin Private Equity too: "We don't just ask companies to bring us their balance sheets and business plans – we go out to see their businesses, feel their drive and get a sense of their energy, their passion for what they do."

He is hugely optimistic about the opportunities in South Africa today. He met *Catalyst* after a holiday to visit family and friends in Sydney and, while he says it's a beautiful place, this is where the opportunities and the energy are. To say nothing of the lifestyle that enables him to indulge those passions. ❖



Going private: Sardonic memoirs of a private equity professional

MOST BLOGS are self-indulgent trash, about on a par in quality with the comments on Moneyweb articles from those illiterates who clearly don't have enough work to do.

Given that I clearly also have too much time on my hands, I've been following 'Going private: Sardonic memoirs of a private equity professional,' a weblog by a well-educated young American who is VP at a middle market LBO firm in Manhattan.

This blogger is also self-indulgent and is probably working on a screenplay for a movie featuring Johnny Depp or Mira Sorvino, but it's an interesting read, well presented, well written, sometimes serious, sometimes more fun. Thanks to Daniel Primack of PE Week Wire for first flagging it. Go to <http://equityprivate.typepad.com/ep>

Editor



Targeting high net worth individuals for PE investments

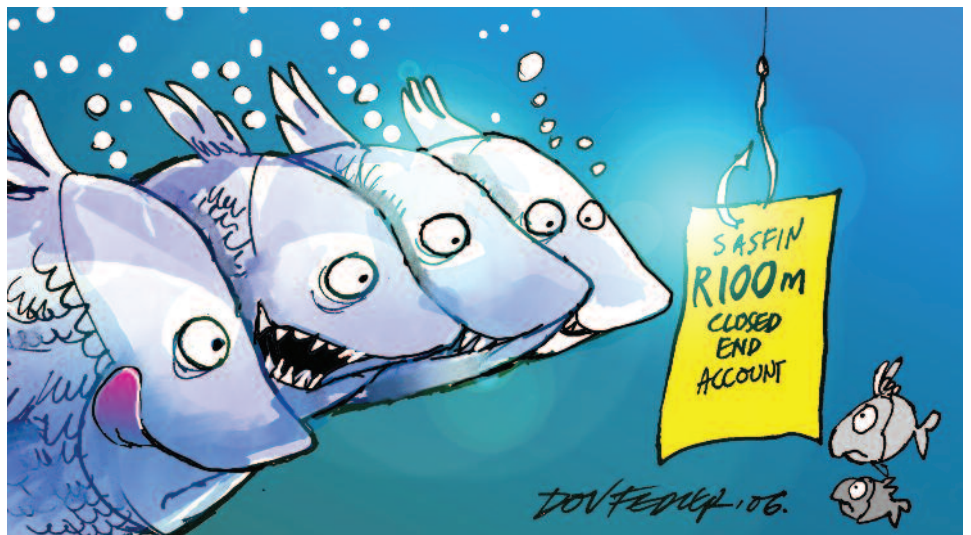
Sasfin Capital's decision to tap into the previously largely ignored individual client market in private equity fundraising is attracting increasing interest from the Sasfin Group's base of high net worth private clients.

The company's head of Private Equity, Malcolm Segal, says being able to invest in a private equity fund provides an attractive portfolio diversification opportunity for this type of investor – high net worth individuals, families and personal trusts.

Sasfin is raising a R100m closed-end fund with the intention of committing half the capital itself and sourcing the other half from private clients, with a minimum investment of R1m.

The broad strategic approach for this fund was announced towards the end of last year, but the plan is now coming together.

"We're still testing the water, seeing the appetite among our clients, but



Catalyst



response to date has been very positive,” Segal says. He says these investors have to be people with substantial discretionary investment capacity, no liquidity requirements from the investment in the medium term, and they must understand the nature of the asset class.”

“We think there are enough sophisticated investors out there to validate this approach. There are more and more individuals in South Africa today with an understanding of alternative assets – look at the interest in hedge funds, for example.”

The fund will be looking at investments with an enterprise value of R12m – R100m and with an annual turnover of a minimum of R20m. Segal sees a natural synergy between the Sasfin Group’s Wealth Management and Business Banking units with the latter serving as one source of investment opportunities for the private equity fund.

“On the Business Banking side, we have established entrepreneurial businesses seeking cash-in growth and development capital, which is the major category of transaction we will support.

We also fund MBOs and turnarounds on a very selective basis.”

Three investments have in fact already been made, one being the Edgray chain of retail stores in the Eastern Cape, the two others yet to be disclosed.

While this approach may not be unique, it is certainly novel for a South African private equity fund to be tapping into the vast private client market in its fundraising. It’s a fresh source of funding for private equity and a new investment diversification route for private clients. ♦

Private equity as a driver of M&A

The recently-released Ernst & Young (E&Y) review of mergers and acquisitions activity for 2005 highlights the important role of private equity in this sector.

Given that South Africa’s M&A activity tends to follow global trends, the survey first looked at developments in international markets in 2005, which, according to Thomson Financial and reported by E&Y, was the best year since the turn of the century, and the third best M&A year ever.

According to Thomson Financial, announced global transactions in 2005 increased 38,4% to US\$2,7tn (2004: \$2tn), with the factors behind this growth being “increased demand for energy assets, easy access to capital, and a record amount of private equity raising.”

Private equity played a major role driving deal flow. Thomson says that private equity companies were involved in transactions worth almost \$400bn across all sectors. The US headed the league tables, with private equity deals totalling \$141,3bn in 2005. “Private equity is increasingly playing a role in the European market, with The Economist reporting in September 2005 that up to a third of merger activity in the continent is generated by private equity firms.”

“Such firms can sharpen up business performance, by snapping up neglected bits of conglomerates and running them as independent businesses. There is obvious-

ly scope for this in Europe, where the degree of conglomeration is far higher than in America.”

However, a number of authorities have expressed concern about the boom in the M&A market, saying that the number of private equity players and the participation of hedge funds may push up asset prices. “Having so many potential suitors for a company could start a price war, and tempt bidders into the same trap that saw many of them over-paying for assets in the 1990s.”

In South Africa, private equity was also a strong deal driver. Part of this was the trend for BEE companies to grow and/or expand private equity business. “The attraction to private equity is understandable as it has delivered stellar returns in recent times,” the review says. “However, obstacles faced in raising institutional funds include the lack of a track record as well as being unable to find senior black professionals with appropriate private equity skills.”

The findings regarding the role of BEE in private equity gel with those of the most recent South African Private Equity Confidence Survey, conducted by Deloitte in conjunction with the Southern African Venture Capital and Private Equity

Association (Savca). The Deloitte survey reports BEE “is and will continue to be a significant deal driver with 68% of respondents expecting it to generate more opportunities and 49% of respondents expect BEE to be a requirement in 75% or more of their deals. It says that 79% of respondents now predict their funds to be categorised as black-influenced to black-controlled. “Surprising is the increase to 21% of respondents predicting funds to contain no black involvement.”

The E&Y review says that in terms of 2005 mega-transactions, the Waco acquisition by CCMP Capital Asia and Waco management (*Catalyst’s* 2005 Private Equity Deal of the Year) ranked 7th overall, bested by only Old Mutual/Skandia, Barclays/Absa, Kumba’s BEE transaction and unbundling, Vodafone/Venfin, the PIC/MTN and Old Mutual, Nedcor and Mutual & Federal’s BEE transaction.

With cross-border transactions playing a prominent role in M&A activity, it is worth noting that the first asset sold after Anglo American plc announced it would shed some of its non-core assets was Boart Longyear, which was bought by private equity company Advent International for R3,6bn. ♦



Confidence in private equity grows but allocations fall

The most recent South African Private Equity Confidence Survey shows that investors continue to view private equity as an asset class that outperforms the relevant JSE index as well as delivers superior risk-adjusted returns.

The survey is conducted by Deloitte in conjunction with the Southern African Venture Capital and Private Equity Association (Savca) among a population of over 300 investment professionals in the private equity industry across South Africa. It summarises the results of the 12-month forward-looking sentiment in the industry in Quarter 4 2005 and Quarter 1 2006.

It goes on to say that 75% of respondents expect actual funds allocated to private equity as a percentage of total funds to increase during the next 12 months. Unfortunately, though, the

relative allocation of funds to private equity as an asset class shows a decrease from prior periods.

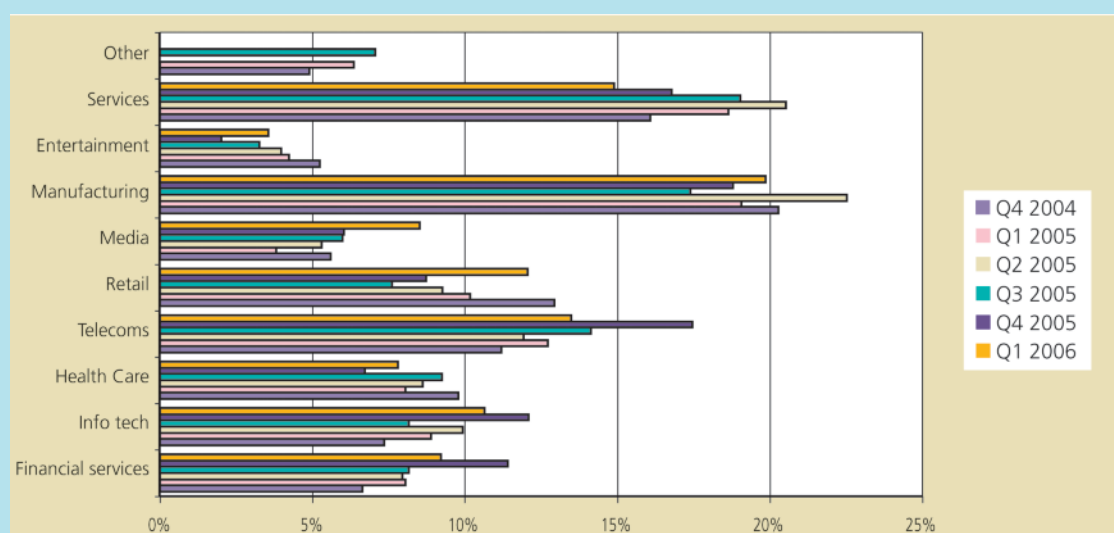
Some 83% of respondents indicate that 33% of funds committed to private equity will be provided to BEE funds. However, the largest barriers to investment in PE by investors remains that the asset class is not well understood and the lack of apparent liquidity, it says.

Other key findings of the survey were:

- Continued positive outlook on the overall economic climate;
- Increase in the availability of foreign investment into funds;

- Manufacturing and services remain the focus industries with retail and media climbing steadily;
- Competition for new investments continues to rise together with the volume of expected transactions, average deal sizes, entry and exit multiples;
- A net seller position expected to develop over the next 12 months;
- Expected IPO activity remains disappointingly low; and
- BEE expected to remain a catalyst for investment and opportunities in the market. ❖

The table reflects where participants are focusing their investment activities



Source: Deloitte/Savca

Catalyst



International round-up

US PRIVATE EQUITY group Blackstone has acquired a 4.5% stake in Deutsche Telekom for €2.7bn from the German state-owned development bank KfW. According to the Financial Times, Apax, KKR, Providence Equity, Cinven, Apollo Management and Silver Lake Partners are among the rival private equity groups also thought to have bid for the Deutsche Telekom stake. The acquisition follows a controversial comment by a German politician last year that likened US hedge fund and private equity groups to a "swarm of locusts," buying and stripping the country's assets.

* * *

KOHLBERG KRAVIS Roberts & Co (KKR) has agreed to acquire the software business of Flextronics International Ltd, in a deal valued at about \$900m, with Flextronics retaining a 15% stake. This would be KKR's first deal in India and the largest LBO in India to date. Leverage will be arranged by Citigroup Global Markets and Merrill Lynch.

* * *

PRIVATE EQUITY firm Babcock & Brown Capital of Australia has confirmed its plans to buy out Irish telco Eircom in a \$2.8bn deal, according to reports. B&B already holds a 12% stake in Eircom.

* * *

PORTS APART: Dubai Islamic Bank and Dubai World are to launch a group of private equity funds that will manage \$5bn and in which both firms will be anchor investors. Dubai World is the holding company of Dubai Ports World. The funds to be launched over the next 18 months will include seven different private equity funds that will invest in energy, financial institutions, infrastructure, real estate, health and education, general industrials, technology, media and telecommunications.

Asian PE News

AL TAWFEEK, a Sharia-compliant investment firm based in Saudi Arabia, and Dallah AlBaraka Group are raising a \$100m private equity fund for Middle East and North Africa investments. The fund will make late stage and pre-IPO investments.

* * *

PARTNERS GROUP has announced the final closing for its Asian private equity fund, Partners Group Asia-Pacific 2005. The fund was capped at \$375m. Partners expects to invest approximately 60% of its assets in mature Asian economies (Japan, Korea, South-East Asia, Australia) and 40% in rapidly growing markets, such as Greater China and India.

Asian PE News

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CAZENOVE PRIVATE Equity plans to spin out of parent company Cazenove Capital Management and merge with Prelude Ventures. The new partnership will have assets under management of \$500m, focused on European venture capital.

AltAssets

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PRIVATE EQUITY and venture capital firms invested about \$1.4bn in 69 Indian companies during the quarter ended March 2006. The amount invested during the latest quarter was over 3.5 times that during the same period last year and 1.7 times that during Q4 2005, according to Venture Intelligence India. The average private equity deal size has gone up to about \$20m from \$14m during the same period last year.

* * *

ISRAELI VENTURE capital funds raised \$1.2bn in 2005, which represents an increase of 40% from the \$724m raised in 2004, according to the Annual Survey of Israeli Venture Capital Fund Raising, conducted by the IVC Research Center in cooperation with the

Israel Venture Association. During the past 18 months foreign pension funds, including CalSTRS, CalPERS, NY State Retirement System, Oregon Public Employees Retirement Fund and TIAA-CREF, increased their involvement in the Israeli VC market.

AltAssets

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Kerzner buy-out

SOL AND BUTCH Kerzner are taking out their empire private: an investment consortium led the father and son team has agreed to pay more money to buy all the outstanding shares of casino and resort operator Kerzner International, upping the cash price per share from \$76 to \$81.

The \$3.8bn transaction clears a major hurdle in the consortium's bid to take Kerzner International private, although the deal still hinges on approval from Kerzner International shareholders and regulatory approvals before it can be finalised.

Once the deal is closed, Kerzner International will become a privately held company and its stock will no longer be traded on the New York Stock Exchange.

The investor group also includes UAE-based Istithmar PJSC, which is a significant shareholder of the company, Goldman Sach's Whitehall Street Global Real Estate Limited Partnership 2005, Colony Capital LLC, Providence Equity Partners, Inc. and The Related Companies, L.P.

The transaction is expected to close in mid-2006 and is subject to certain terms and conditions. Deutsche Bank Securities Inc. and Goldman Sachs Credit Partners have provided commitments to the investor group for the debt portion of the financing for the transaction. ♦

Bloomberg and Kerzner

Standard Bank in Malaysian fund

Standard Bank and Malaysia's CIMB have launched the South East Asian Strategic Assets Fund (SEASAF), a US\$250m private equity fund investing in the infrastructure, energy and natural resource sectors and associated industries in South East Asia. The fund will focus primarily on Malaysia and Indonesia with secondary focus on Singapore, Thailand, Brunei, Myanmar, Lao People's Democratic Republic, Philippines, Cambodia and Vietnam. SEASAF is sponsored by CIMB Group Sdn Bhd (CIMB) and Standard Bank Plc, and is co-sponsored by the Employees Provident Fund of Malaysia.

The fund will typically invest into, or alongside, experienced infrastructure, energy and resource companies with a strong management team. Each investment will have a clearly identified exit strategy. The general partner and its advisor will consider all exit options to maximise investor returns, including listing SEASAF on a regional stock exchange.

Malcolm Wilde, Chief Executive, Standard Bank Asia, says the bank is committed to making a difference in South East Asia. "Our expertise in developing economies and the energy, infrastructure and resource sectors will couple well with the regional strength of CIMB. We expect that SEASAF will play an important role in these vital sectors in this rapidly growing region."

To date SEASAF has secured total capital commitments of US\$100m from CIMB, Standard Bank and EPF. SEASAF aims to secure US\$250m of committed capital within 18 months and will market itself to local and foreign institutions and high net worth individuals, with a minimum investment of US\$5m. The fund has a term of 10 years with an option of two further one-year extensions and targets a US\$ internal rate of return for its investors over the life of the fund of 20% per annum.

Leading the way in South Africa's biggest ever private equity deal

Cliffe Dekker was lead legal advisor on South Africa's largest ever private equity transaction. CCMP Capital Asia acquired Waco International in a deal valued at R5.4bn, recently named Dealmakers' Private Equity Deal of the Year. Structuring such deals calls for a rare combination of experience and expertise. If you need legal advice in this field, now you know who to turn to.

Cliffe Dekker has been rated the No. 1 Large Law Firm by corporate South Africa for the past three years in a row.

For further information please go to **www.cliffedekker.com**

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