Realising growth

A string of exit announcements over the past year by private equity managers in Southern Africa and sub-Saharan Africa points to firm investor sentiment in the region, and is testament to the opportunities created by the industry. The steady realisations trend is expected to continue throughout 2017.

One of the prominent themes for private equity during 2016 was its exits performance, with a number of mature assets having been put up for sale. Johnny Jones, associate partner at Vantage Capital, attributes the realisations performance to the degree of investor confidence in the region. "The past year was a relatively weak year for many African economies, so to have such robust exit performance speaks to the resiliency of private equity firms' portfolios and the strong interest in portfolio companies by strategic and financial investors."


Johnny Jones

In a similar vein, Dabney Tonelli, investor relations partner at Helios Investment Partners, says: "Looking at our own portfolio, we are encouraged not only by the returns generated, but also by the diversity of our exit paths, which we believe demonstrate that market-leading businesses of scale in Africa can attract high-quality international buyers."

Andrew Dewar, managing director of Rockwood Private Equity, says: "The returns from these two assets since acquisition in 2006 and 2007 respectively have been significant. In aggregate, the IRR achieved is 24% and a times money back of almost seven was achieved. We are proud to say that, in terms of gross proceeds, these are amongst the largest exits ever concluded by private equity funds in South Africa, with combined gross exit proceeds exceeding R9.4 billion.


Andrew Dewar

"These returns demonstrate that South Africa remains a really great country for private equity and that superb outcomes are achievable with the right business, strategy, management team, BEE partners and fund manager – irrespective of economic cycles and political changes," says Dewar.

On the infrastructure front, Ed Stumpf, investment director at African Infrastructure Investment Managers (AIIM), says the most material exit for AIIM in 2016 was the sale of toll road interests held by the South African Infrastructure Fund for a consideration in excess of R4.5 billion: "This exit was ground-breaking in the evolution of the infrastructure asset class in South Africa."


Ed Stumpf

Dhesen Moodley, Investment Director at AIIM, adds that the case is highly compelling in Southern Africa: "During 2016, there were ten exits of operating assets in the renewable energy sector. We've seen a lot of institutional investor appetite for yielding infrastructure assets. There is increasing understanding of the merits of infrastructure."

MANAGING THE EXIT IN A WORLD OF COMPLEXITY

There is material variation in the exit friendliness of different jurisdictions across sub-Saharan Africa. Part of the challenge, according to Stumpf, is that the buyer universe is quite variable depending on the specific jurisdiction, and that issues such as political uncertainty, currency volatility and commodity-price fluctuations have an impact both on optimal timing for an exit and the size of the buyer universe.

Vantage's Jones adds that the sub-Saharan African business environment is far less mature than those of other markets: "In this region, it takes a longer time to realise the value addition – be it improved financial controls, better corporate governance, stronger management talent, or effective business strategy, which help private equity managers exit investee companies at attractive valuations. Thus, the relatively short-dated investment-to-exit cycle of three to five years can be more difficult to achieve."

The buy-and-build approach has been one way to manage the time-frame constraint. "One theme we've noticed is that some investors were willing to pay a higher premium for acquisition targets that could be integrated into the buyer's larger platform of similar businesses in the sector. These integrated acquisitions can often create substantial value for the acquirer in a relatively short time frame," says Jones.

Keith Woodhouse, partner at Hogan Lovells, has witnessed an increase in the use of secondary buyouts as a way of exiting: "This demonstrates that the private equity market in Africa is maturing. It is also evidence of some private equity houses needing to achieve exits. This need to exit is typically the case where the funds are reaching the end of their life cycle or where there is a need to support future

capital raises."

Meanwhile, Tonelli continues to see interest from financial and trade buyers: "In particular, we are seeing more interest in Africa from Asian trade buyers than before. Furthermore, there is significant demand from the local exchanges for a greater supply of IPOs as domestic pools of capital grow and need a home."

Nevertheless, John Bellew, partner and head of private equity at Bowmans, notes that the IPO exit route outside of South Africa is not as viable as it should be. "This means a greater need to exit via self-funded exit routes or auction processes. Note, though, that with the amount of capital that has been raised for sub-Saharan Africa in recent years, the pool of potential financial purchasers has increased substantially and there is healthy competition for good assets."

HIGHER EXIT VOLUMES AHEAD

With a number of private equity funds nearing maturity and in the process of realising their investments, the healthy level of exits activity is set to continue in 2017. Anthonie de Beer, partner at Ethos Private Equity, says: "We anticipate better earnings growth in 2017 in comparison to 2016. This should provide acquirers with greater confidence in the growth prospects of target businesses. Increased confidence should also narrow the price gap between buyers and sellers, translating to higher exit volumes."

Michael Rudnicki, KPMG Head of Private Equity for Southern Africa, affirms that the exiting trend will remain robust in the coming years: "Strong portfolio management teams, saturated markets in South Africa and the lack of growth in the rest of the world in the private equity sector, remain of interest to the international private equity investor market seeking exposure to the African continent."

PRIVATE EQUITY EXITS IN SOUTHERN AFRICA

2016–2017 (to date)

Source: Africa Global Funds

- Vantage exits TrenStar
- Ethos sells CQS stake for over R200 million
- Actis to sell EMP to Network International
- Stellar Capital exits Tellumat
- South Africa Infrastructure Fund sells Toll road assets to PIC, Old Mautual and others
- Rockwood and Thebe exit Safripol to KAP
- RBH and Kutana acquire major assets from Aveng
- Steinhoff buys Actis's stake in Tekkie Town
- Rockwood sells Tsebo to Wendel
- Absa exits RainFin
- Hermes-Sojitz exits Sinopac
- Tana exits Promasidor to Ajinomoto
- Evolution One Fund exits four renewable energy assets