The future of Alternative Asset (with specific focus on Private Equity)

J-P Fourie

SAVCA
(Southern Africa Venture Capital and Private Equity Association)
www.savca.co.za
Presentation Objectives

1. Provide an overview of the Private Equity and Venture Capital industry in South Africa

2. Discuss, briefly, some facts and figures of the industry, the economic impact thereof and how this relates to:
   • Future allocations (investments into) to Private Funds?
   • How Private Equity secure better returns?

3. Future prospects
What is private equity?

- Private equity investments are typically transformational and encompass value-adding investment strategies.

- This requires specialised skills which is a key consideration for investors in assessing and selecting private equity fund managers.

- An enterprise may seek private equity financing for a variety of applications, as follows:
  - increasing its working capital base;
  - business expansion and development;
  - developing new technologies and products in order to grow and/or remain competitive;
  - to finance acquisitions of other businesses;
  - Introduction of BEE shareholding; and
  - to buy out certain shareholders in order to restructure the ownership and management of the business.
The Sub-Saharan African private equity industry is small by international standards ...

- **North America**: 56%
- **UK**: 16%
- **Europe Ex-UK**: 16%
- **Australia**: 1%
- **Japan**: 5%
- **Asia**: 4%
- **Sub-Saharan Africa (c. US$ 16 bn)**: 2%
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… but represents a significant percentage of GDP (US$ Billion)

Private Equity Investment as percentage of GDP (%)

Source: SAVCA KPMG 2011 Private Equity Industry Performance Survey
### Funds under management (Rbn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Captives – Other</th>
<th>Captives – Government</th>
<th>Captives – Financial Services</th>
<th>Independants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>10.3</td>
<td>13.3</td>
<td>35.9</td>
<td>71.6</td>
</tr>
<tr>
<td>2002</td>
<td>10.5</td>
<td>6.2</td>
<td>37.0</td>
<td>73.9</td>
</tr>
<tr>
<td>2003</td>
<td>8.7</td>
<td>8.3</td>
<td>39.3</td>
<td>76.3</td>
</tr>
<tr>
<td>2004</td>
<td>5.2</td>
<td>10.2</td>
<td>39.7</td>
<td>78.1</td>
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<tr>
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<td>18.4</td>
<td>24.7</td>
<td>109.3</td>
<td>112.4</td>
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<tr>
<td>2008</td>
<td>12.3</td>
<td>31.2</td>
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<tr>
<td>2009</td>
<td>12.1</td>
<td>39.7</td>
<td>48.3</td>
<td>110.1</td>
</tr>
<tr>
<td>2010</td>
<td>12.9</td>
<td>34.1</td>
<td>45.8</td>
<td>113.6</td>
</tr>
</tbody>
</table>

- Decrease of 7.4% to R97.6 billion (2009: R105.4)
- CAGR of 10.7% since 1999
- Independents and Captives- Financial Services fund managers make up 82% of the FUM (2009: 84%)
- General funds still dominate with 78%, followed by Infrastructure with 13.6%

**Split of FUM:**
- Invested: R66.6 billion
- Undrawn commitments: R31 billion

Source: SAVCA KPMG 2011 Private Equity Industry Performance Survey
Fundraising activity

Third party fund raised: by stage and year (Rbn)

Source: SAVCA KPMG 2011 Private Equity Industry Performance Survey
Fundraising activity

Geographic Sources of Funds Raised

Source: SAVCA KPMG 2011 Private Equity Industry Performance Survey
Fundraising activity

Source of third party funds raised to 31 December 2010 not yet returned to investors (R53.3bn) (Rbn)

Source: SAVCA KPMG 2011 Private Equity Industry Performance Survey
Black Economic Empowerment FUM

Source: SAVCA KPMG 2011 Private Equity Industry Performance Survey
Large amount of activity is expansion/development-focused

Analysis of investments by stage and cost

Investments made during 2009
- 61% Buyout
- 19% Replacement capital
- 16% Expansion and development
- 4% Start up and early stage
- 4% Seed Capital

Investments made during 2010
- 63% Buyout
- 22% Replacement capital
- 9% Expansion and development
- 6% Start up and early stage
- 0% Seed Capital

Unrealised investments at 31 Dec 2009
- 37% Buyout
- 17% Replacement capital
- 3% Expansion and development
- 4% Start up and early stage
- 1% Seed Capital

Unrealised investments at 31 Dec 2010
- 38% Buyout
- 15% Replacement capital
- 3% Expansion and development
- 4% Start up and early stage
- 1% Seed Capital

Source: SAVCA KPMG 2011 Private Equity Industry Performance Survey
Over the three-year period from 2005/2006 to 2008/9, Private Equity-backed companies have achieved:

- **Employment growth rates of 9% p.a.** compared with JSE listed business’s growth rates of 4%

- **Employment of 5% of SA’s** formal sector employees which equates to around 427 000 jobs

- **Average domestic employment growth rates of 10% p.a.** compared with 1% across all businesses in SA

- **Average turnover growth of 20%**, compared to 18% for JSE businesses

- **Pre-tax profit growth of 16% p.a.** compared to 14% for JSE businesses

- **Average R&D expenditure growth of 7%** compared to 1% for JSE listed businesses

Source: SAVCA DBSA 2009 Private Equity Industry Economic Impact Survey
So what is the role/impact of role of Private Equity

In the main, respondents report that private equity has made a positive contribution to their business

Private equity contribution

- Allowed the Business to grow faster? 64%
- Allowed the introduction of BEE? 54%
- Been responsible for the existence / survival of your Business? 47%
- Had no positive impact on the Business? 11%

Source: SAVCA DBSA 2009 Private Equity Industry Economic Impact Survey
Private Equity returns

Source: SAVCA RisCura Private Equity Performance Measurement Survey: June 2011

![Graph showing private equity returns over different time periods.](Image)
Future prospects?

- Reg 28 impact will be interesting to observe in the next few years – fund raising will however remain tough

- There have been a few high profile PE and VC exits in 2011 (examples: Ethos, Actis, Horizon, PoweredbyVC) and we expect more to follow

- International interest is growing in momentum

- Expansion of SA PE/VC funds into rest of Africa or at least sub-Saharan Africa will continue to increase – Pan-African funds will increase

- Regulatory concerns – US: tax on carry, interest rate decidability, AIFMD (EU), Dodd Frank (US), Sec 5(2) of Pension Funds Act

- Debt : equity ratios should remain static

- Earning visibility improving and buyers and sellers valuations converging