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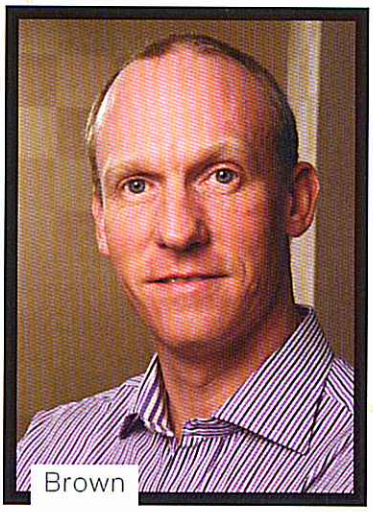
PE: a growing strategy for Africa

STEPHEN BROWN AND MIKE DONALDSON

While South Africa is touted as the 'gateway to Africa', and emerging economies continue to grow at a significant rate, South African companies still remain cautious when it comes to investing large amounts beyond the borders.



Brown

As foreign interest in Africa grows and new PE investors begin exploring their options on the continent, many are still choosing to open their portfolio with acquisitions in South Africa and build from there.

Local investors looking for superior returns should similarly be building up their portfolios in Africa – and should utilise the "edge" South African private equity (PE) firms still have over their foreign competitors to do this. As part of the African village, local firms often have a better understanding of how to work in situations of political and other instability, and find ways to make deals work.

Investing in Africa – successfully – is about perseverance, understanding the market, partnering with the right people and picking the right sectors, all of which have been learned by local PE firms in the South African context to a great degree. While investing in certain African countries is still very foreign to us in certain instances, these situations are often far more familiar to South African firms than they are to their overseas competitors.

Donaldson

Local PE investors are additionally willing to invest in the lower end of the scale and are prepared to look at smaller equity cheques and reduced deal sizes – again based on experiences here at home. Foreign players coming into Africa are typically used to larger and more mature markets. They're accustomed to private equity funds in the US and in Europe that focus on much bigger deal ticket sizes.

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Coming into Africa and expecting to find private companies generating profits in excess of $20m will be a challenge. There aren't many companies playing in this space. Look for a business making $5m to $10m and you're sure to discover many more options. Given the recent impacts of the recession and resultant lower levels of liquidity, one can, however, reasonably expect to see dampened local appetite for the higher risk of investing in Africa in the foreseeable future.

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newsclip media monitoring
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Global corporations are slowly selling off businesses that do not form part of core operations: consider recent sales by heavyweight firms including the Times Media Group. As the market re-assesses and adapts itself to the repercussions of the downturn in the world economy, divestiture is emerging as a positive trend both for the seller and buyer.

While reasons for divestiture vary, selling non-core assets essentially sharpens the focus of a business by returning emphasis to core operations; simultaneously, such sales improve liquidity for the seller. Often divestitures allow management to refocus on its core operations: the sale of those extraneous businesses allows for considerable capital to be raised, which can reduce any existing debt – through these transactions, wealth realised creates a new source of liquidity.

Consequently divestiture has a silver lining for investors, especially when considering the success rate of management buy-outs in the local market coupled with the ability to penetrate further African markets, which South Africa offers. South African PE investors continue to demonstrate both the appetite and the funds to do deals: and BEE and BBBEE appear to be driving local deal activity in the current market. The need to improve BEE credentials is operating as an added stimulus to the acquisitions market.

Investors ultimately seek strategic deals that will add long-term returns to a portfolio; and in the current market divestiture offers remarkable value and potential. Investors who do their research, and then identify the right PE partner before making a decision to pursue an appropriate deal, are exceptionally well-positioned to capitalise on current conditions. ●

Brown and Donaldson are directors at RMB Corvest

DEALMAKERS AFRICA CRITERIA

This section has been added to expand DealMakers' coverage to include transactions worked on by South African industry service providers across the continent. It has been introduced in response to numerous requests made by various companies over a long period. In order to ensure its effectiveness, all firms involved in transactions of this nature are urged to provide appropriate details.

1. Entities that seek credit for involvement in M&A work and other financial transactions must demonstrate the involvement, if necessary by reference to one or several of the principals
2. The full value of each deal is credited to each entity providing a service in respect of that deal
3. Rankings are recorded in respect of South African:
   - Investment Advisers (includes Merchant & Investment Banks and others claiming this category)
   - Sponsors
   - Legal Advisers
   - Reporting Accountants

   Players not represented in South Africa will be recorded as an adviser to the deal but will not be included for ranking purposes
4. So as to achieve fairness, rankings are to be recorded in two fields
   - Deal Value (ZAR)
   - Deal Flow (number of deals)
5. All deals and transactions are dated for record purposes on the 1st announcement date (except for listings, for which the record date is the date of the actual listing)
6. M&A deals that are subsequently cancelled, withdrawn or which are deemed to have failed will nevertheless be have worked on these will be credited with them for ranking purposes provided they are able to demonstrate the work was undertaken and effected
7. Where advisers make use of other advisers (second advisers), and provided the work was undertaken and this can be verified, secondary advisers will be credited for ranking purposes
8. Schemes of arrangement, rights issues and share repurchases are valued for record purposes at the maximum number of shares and value that can be purchased or issued until such time as the results are announced
9. All deals and transactions are checked by DealMakers; any discrepancies that arise will be queried
10. Entities that claim involvement in a deal or transaction on which their name and/or company logo does not appear on the published announcement recording their specific role will be asked to provide confirmation from the principals regarding their role
11. All entities involved in deal-making and/or corporate finance transactions will be asked to sign off a summary document prepared by DealMakers to ensure that no clerical errors have occurred
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