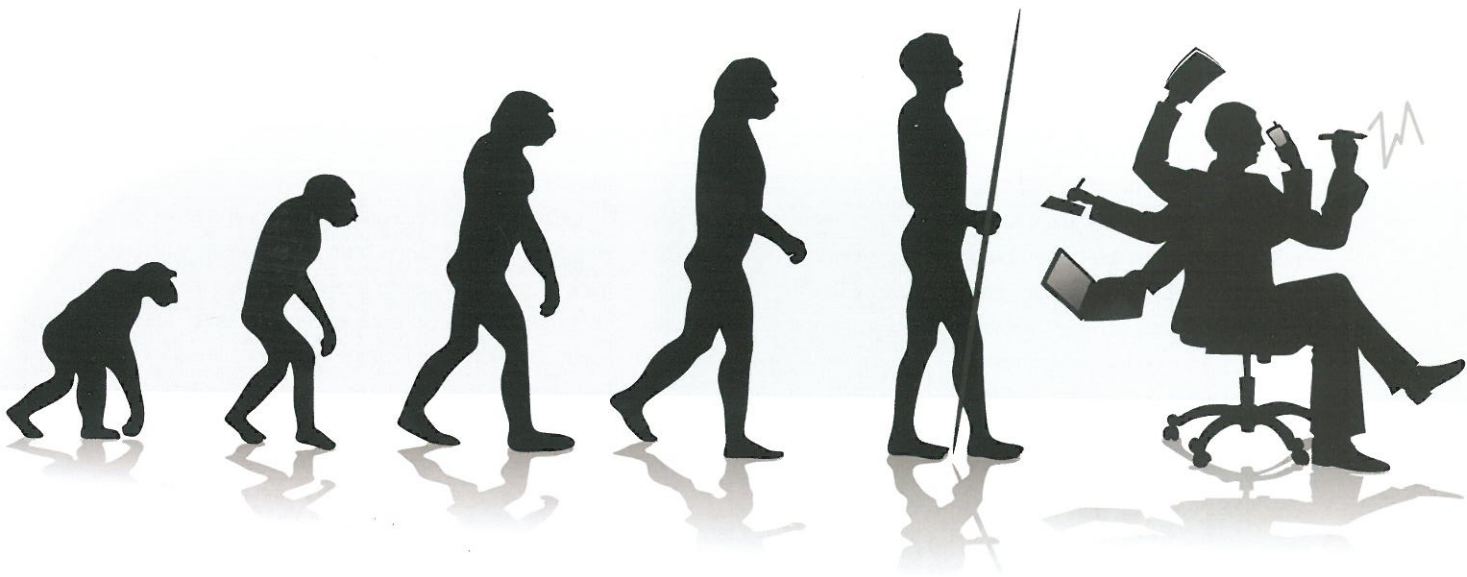


moving to create industrial platforms and are not looking for 'quick fixes' or selling off unfinished jewels."

The "buy to hold" practise focuses on establishing long-term partnerships, ensuring stability, support and profitability: critical benefits which PE offers that are not otherwise guaranteed when attempting to raise liquidity via public listing. The listed market does not accept stagnation or moderate growth, and in difficult and uncertain times listed companies are beholden to market expectations, including expectations of increasing earnings per share (EPS).

Additionally, during this phase still higher gearing levels are more comfortably accommodated – ultimately assisting to achieve high overall returns.

Despite this notable shift in the local landscape, the country remains some way from realising the third recognised phase in PE evolution of "buy and transmute" currently dominant in Western markets. This third phase represents a full structural reconfiguration through the generation of an inter-relational portfolio of investments symbiotically supporting each other, with far greater intervention regarding management upgrades.



"PE, on the other hand, offers business the liquidity without some of the short-term hurdles – allowing investments to keep out of the limelight, and without their having to consider a diverse body of shareholders," says Donaldson. As such, PE enables the focus to remain squarely on a long-term strategic vision of value creation free from the pressure of immediately increasing current EPS, with the achievement of those longer-term goals ensuring that all parties receive higher returns.



Mike Donaldson

Consequently, within the current "buy and hold" phase of PE evolution, suitable M&A targets are better identified and realised within considerably more elastic timeframes than listing would otherwise permit. As such, focus is set on the so-called 'equity uplift' and, by corollary, invites a greater diversity of methodologies to achieve the desired longer term valuation.

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And this presents a skills challenge for the sector. Sector focus and specialist, sector-specific skills are now required to appropriately – and significantly – transmute an acquisition into an interlocking portfolio asset. However, the risks of this methodology are considerably higher as investors cannot simply rely on existing management skills.

"The broadening of the local skills pool will be necessary to attain the identified third phase," says Donaldson. "This will happen, but will take the local industry several years to achieve." ♦