

Vol 7. No 4

DECEMBER QUARTER 2010

Catalyst

Private Equity Deal of the Year announced

Inaugural SAVCA Venture Solutions 2010 Venture Capital survey

Green investing leads the way

All the deal activity for 2010 tabled

SA's quarterly Private Equity
& Venture Capital magazine

From the Editor's desk

The rumblings and rumours hovering around 9 Fricker Road perhaps best encapsulate the uncertain mood pervading the private equity industry in South Africa during 2010. Since Brait announced in a recent cautionary that the company is considering a potential transaction which "may involve a significant equity markets capital raising, the securing of an anchor shareholder, the acquisition of investment assets and an internal reorganization in support of these steps..." speculation has grown.

Equity markets capital raising? If a firm with the peerless credentials of Brait is finding the fundraising environment this tough then it's surely the kicker that signals fund raising will more than likely remain depressed for the first two quarters of 2011 at least.

With the market being characterized by a relative abundance of private equity and senior debt capacity there

is a significant shallower pool of mezzanine finance. This trend is global as evidenced by Morgan Stanley's US\$1bn fund in January.

We can expect to see at least one major fund announced in the coming months – I'm not at liberty to divulge the details – with more sure to follow suit.

The big question remains however: when will we start seeing some movement in the traditional fund raising market?

Congratulations to the team at Capita for taking away the Catalyst Private Equity Deal of the Year Award for the Foodcorp restructuring which saw Pamodzi exit its investment in South Africa's third largest food company and new investments by BlueBay Asset Management plc, a UK-based fund manager and Capita.

After meeting with Capita CE David Field (formerly with Brait) and his team at the firm's Bedfordview office come home-away-from-home I have no doubts that we will witness many more exciting deals from them in the years ahead.

From the first quarter of 2011 Catalyst will be carrying a valuable addition to the South African private equity deal tables. Africa is opening up at mind boggling pace and the activity in, and appetite for, emerging markets such as this means that deals are starting to flow steadily.

This means that we will now be covering, formally, the private equity deal activity on the African continent and hopefully provide you with an even more analytical read than ever before. For this, I would like to thank the absolutely tireless efforts of Vanessa Aitken. ♦

Catalyst

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Private Equity Deal of the Year

Management takes another bite of Foodcorp

In a year which saw very little deal activity of the dripping roast variety being carved up by South Africa's private equity houses, one transaction stood out as much for its history, cleverness and complexity as for the fact that it harks back to a time when leveraged buyouts were the current flavour.

Foodcorp is South Africa's third largest food company with some of South Africa's best-known brands, including Nola mayonnaise, Yum Yum Peanut Butter, Ouma rusks and Mageu No. One in its stable (to name but a few). It successfully concluded another major shareholder restructuring with new investments by BlueBay Asset Management, a UK-based fund manager and Capita SA Partnership, a South African private equity investor that also acted as lead transaction adviser.

Capita, ably led by CEO David Field, has developed a formidable reputation over the past few years raising approximately R22bn in specialized debt finance for a variety of transactions.

These investments signaled the end for Pamodzi of an almost 12-year investment in Foodcorp – which began in 1998 as the largest leveraged buyout in the country's history up to that point – enabling

Pamodzi and former members of management to “monetize” their approximate 77% holding in the food giant.

Pamodzi first led a consortium including FirstCorp Capital Investors (now Ethos Private Equity) and Foodcorp management in the 100% buyout and delisting of Foodcorp for R1,8bn.

Then, in 2004, Pamodzi took a second bite of Foodcorp when it bought the 49% Ethos stake for 100% control of the company in a deal worth R2,028bn. At the time it was the largest empowerment deal in the food sector with 15% being set aside for Foodcorp management and a further 20% for staff.

The cornerstone funding of R800m, was provided by the Land Bank. Funding of debt and debentures to the tune of R450m was provided by the Industrial Development Corporation and Old Mutual while Nedbank and RMB facilitated the transaction through the provision of R1,6bn in bridging finance.

Field, who headed the corporate advisers from Brait at the time said the transaction.... “set new standards for the structure of empowerment deals where the required funding is obtained with no equity leakage from day one.”

Capita, ably led by CEO David Field, has developed a formidable reputation over the past few years raising approximately R22bn in specialized debt finance for a variety of transactions

Foodcorp then became the first SA corporate to refinance its business by raising €175m at 8,875% in the European high yield market in 2005. It did so again in 2007, when it acquired First Lifestyle by tapping the high yield market to raise a further €135m.

It was the first high yield bond capital raising that distinguished Capita as a leader in accessing international markets by utilizing its vast network of relationships with international investors and financiers.

This is further underscored by Capita's recent slew of awards including ACQ Magazine's SA Financial Advisory Firm of the year for 2007, Debt Advisory Firm of the year for 2008 and Finance Monthly Magazine's Leveraged buyout firm of the year South Africa, to go along with picking up the prestigious **Catalyst** Private Equity Deal of the Year Award for 2010.

The most recent management buyout led by BlueBay's R495,51m and Capita's R30m investments sees them entitled to shareholdings of 44,44% and 4,56% respectively.

Field believes that Capita's toehold investment in Foodcorp is evidence of the



Capita team

faith that the firm has in Foodcorp and its management team.

Julian Wentzel, head of research at Macquarie First South Securities, was quoted in *Business Day* praising the management team headed by Foodcorp CEO Justin Williamson.

“He has done a remarkable job of managing a business which was equity light and debt heavy. He has managed working capital. He has the best working-capital-to-sales- ratio of any company in the (fast-moving consumer goods) sector. He’s put a good management team around him.”

Management and staff have invested an additional R111m to increase their stake in the business to 51%, thus giving them control of the company. A newly formed holding company called New Foodcorp

Holdings will hold 100% of the shares of Foodcorp going forward.

At the same time, Foodcorp purchased the minority interests in First Lifestyle, the perishable food products business acquired in 2007, resulting in a fully streamlined ownership structure.

Today, net debt of the company stands at around R3,5bn with its high yield European bond coming to maturity in June 2012. And management will be grinning at the current strength of the currency against the Euro, which will assist in servicing the euro bonds until 2012 should the economists’ predictions of a strong currency for the next few years come true.

Williamson commented at the time that the transaction “achieves several important objectives, including a simplified

group structure, greater alignment of management and shareholder interests and streamlined decision-making.”

Williamson is understandably proud of the empowerment and employee buy-in that this deal achieved.

“Today, I don’t believe there are many companies of our size in South Africa where 3 000 staff own 23% of the business with 86% of the benefits flowing to previously disadvantaged persons.”

The focus of the company is now exclusively on creating long term value by expanding revenues and growing margins but also on de-leveraging the business. For the year to 31 August 2009, revenues exceeded R6.3bn with trading EBITDA of R645m, reflecting a growth of over 10% year-on-year. ♦

In December 2010, the National Treasury issued a second take on the revised Regulation 28 of the Pensions Fund Act. Reg 28 sets prudential limits on the allocations that South African pension funds make to different asset classes and has historically restricted investment into unlisted equity to part of a 5% allocation with other alternative assets.

Revision to Reg 28 gives private equity a chance to prove its worth

Rory Ord

The new draft represents a significant step forward for investment in unlisted companies with a maximum of 10% now allowed to be invested in unlisted equity. This 10% maximum is part of a larger 15% total allocated to a combination of hedge funds and private equity, and an overarching 30% encompassing all unlisted or unrated debt and equity.

The change in the Regulation has two significant implications. Firstly, the fact that private equity has been specifically defined, and has been allowed a significant allocation, means that pension fund trustees must now specifically consider their approach to investment in this area. The previous categorisation, as part of a small “alternatives” and “other” classification, allowed trustees

to consider this area insignificant. The increased emphasis and guidance in the Regulation will also give trustees increased confidence that investing in unlisted companies is not only good from a portfolio management point of view, but is specifically sanctioned by the Regulator.

Secondly, the size of the allowed allocation expands the potential pool of pension fund investors into private equity. South Africa has few large pension funds, yet a significant number of smaller pension funds. By virtue of their size, the larger pension funds could make reasonably sized investments into private equity while still complying with the old Reg 28. However, the many smaller pension funds could not achieve sufficient diversification within their alterna-



Ord



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tive asset allocation to make investment worthwhile. The increase to 10% specifically for unlisted equity will allow many of these smaller funds to make appropriate investments into private equity without becoming too concentrated in single investments or with a single manager.

It will, no doubt, take time for pension fund trustees to come to grips with the revised Reg 28 and revise their asset allocations. However, the door has been opened for private equity managers to begin this conversation with trustees.

Once the Regulation is promulgated (due to happen in March this year), it will be up to South Africa's blossoming private equity industry to state its case to the many new potential investors that the Regulation will create.

RisCura is currently finalising research into the historic performance of the country's private equity funds for release in the

first quarter of 2011. The results of this research will no doubt form part of the conversation between pension fund trustees seeking to understand how private equity has performed in the past and managers seeking to show their own performance relative to a benchmark.

In the guidance notes to the new Reg 28, the Regulator placed significant emphasis on the potential that private equity has to create a positive impact through its investment activities. Investing in an unlisted company, which has an established, successful business but needs capital to expand operations, can have a significant impact from an economic development point of view. Allocating capital to these companies is more likely to create jobs and boost economic growth than investing in the already well funded listed market. While economic impact is not, and should not be, a pension fund's first responsibility or concern, this

aspect of investment into unlisted companies should be acknowledged as a bonus to a private equity allocation.

All of this represents an opportunity to the country's private equity managers, who have found fundraising tough over the last couple of years. The impact of the financial crisis, negative publicity around private equity in developed markets and the uncertainty around regulations created a difficult fundraising environment. With the South African economy pulling itself out of recession, the recovery of the JSE, and the near finalisation of Reg 28, private equity managers will be feeling more confident about approaching potential investors.

Now that the pension fund investor pool is about to be increased, it is up to these managers to prove their worth. ♦

Rory Ord is Head of Valuation and Pricing at RisCura Analytics

An often-heard criticism from budding small business owners and entrepreneurs is that there is no start-up capital in South Africa - and that infers that there is a lack of venture capital in the country.

Survey finds big appetite for venture capital among investors

Not so, according to the results of the inaugural SAVCA Venture Solutions 2010 Venture Capital survey released in the fourth quarter along with some other thought-provoking findings.

Venture capitalists and angel investors are the lifeblood for startups with stars in their eyes as they provide the "riskier" capital that banks and other established financiers typically shy away from. By implication the Venture Capital industry is a key cylinder in the job creation engine of the economy.

This research project, conducted for SAVCA by Stephan Lamprecht and Eloise Swart of Venture Solutions and conducted during 2010, sought to clarify the perceptions that exist about venture capital in South Africa.

"The findings cover transactions from 2000 to July 2010 and reveal some remark-

able insights," explains SAVCA Executive Officer JP Fourie, "most important of which is that the VC industry is an established one with investment diversity and growth that is surprising for a developing economy."

Fourie expressed his delight with the conclusions reached by this research project which has been close to his heart since taking over the reigns at SAVCA.

The questionnaire-based research surveyed 33 VC fund managers who combined recorded 251 VC transactions totaling an investment in the asset class of R2,6bn. Though the real figure could be closer to R3,5bn, considering no data was mined from known activities in Corporate venturing Business Partners, and VC funds that ceased activity in early part of the survey period.

"Despite various research studies and reports, including the annual SAVCA KPMG

Industry Performance survey, little is known of the exact nature, scope, impediments, and opportunities and associated data regarding VC activity in South Africa," explains Fourie.

Fourie says the survey offers a platform for various stakeholders to analyse the trends in the VC space

"The survey will provide strategic guidance for VC fund managers, government interventions such as the DTI SME support instruments and the Technology Innovation Agency (TIA), and other interventions including the VC/SME tax incentives that have recently been promulgated."

And the survey presents empirical proof for South African investors that VC is an attractive asset class for investment.

However, as the survey makes clear, reviewing the VC space is fraught with difficulty. Fund managers may overstate invest-

Catalyst

ment figures for marketing purposes and different definitions and interpretations of VC make the analysis harder, especially with the current incomplete view of the industry.

Therefore, the survey approach was to employ a bottom-up view by collecting and reviewing verifiable information about concluded VC transactions in the period 2000 to end of July 2010. This removed elements of bias and speculation and introduced a solid platform on which to build a holistic view and use that for industry-wide analysis.

The survey paints a picture of gradual progression or recovery post the dot com boom bust era of 1999, with a peak in 2008

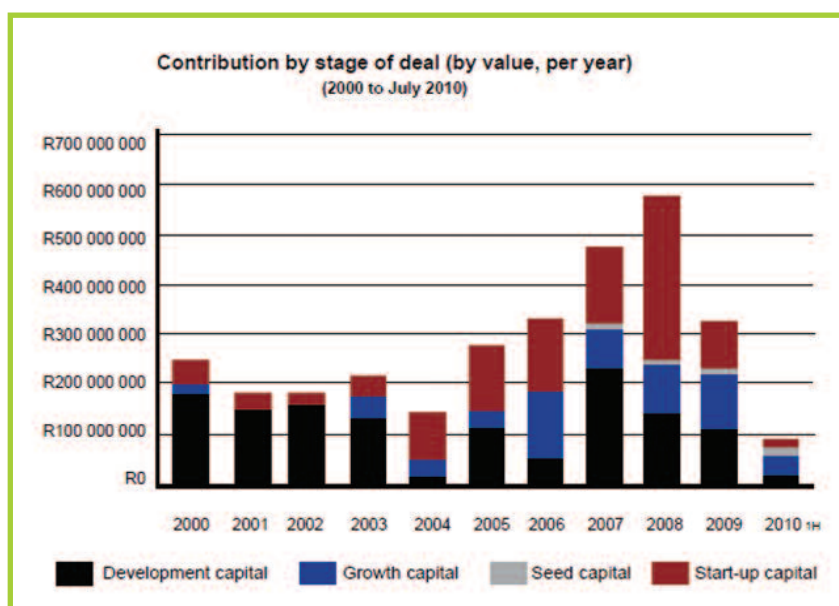
and then a decline during the global financial crisis from 2008 to 2010.

One would be forgiven for assuming that this decline was due, in part, to the global financial crisis but further interrogation of the data points to the fact that most of the newly-raised funds were invested within the first two years of existence, "leaving fund managers to now focus on maturing their investments before considering new rounds of fund raising."

Ironically, the most notable new fund after the dot com bubble was the HBD Fund I linked to South African internet billionaire Mark Shuttleworth, to go along with

Some key findings include:

- R2.6 billion invested in the VC asset class (2000 to July 2010).
- 60% of transactions by private VC fund managers, 5% Angels and 35% government backed VC fund managers.
- 50% of deals were into businesses in the start-up phase.
- 41% of transactions involved life sciences (biotechnology, medical devices, health technology).
- 27% of deals involving ICT and electronics.
- Gauteng was the largest base for VC transactions but Cape Town received more VC money than Johannesburg or Pretoria.
- 13 current VC fund managers were not in business five years ago.
- 17 VC fund managers were open for new transactions at time of survey.



Source: SAVCA Venture Solutions 2010 VC Survey

several funds backed by the IDC as part of a strategy to stimulate the local VC sector. These include Horizon Private Equity, Argil Venture Capital and Bioventures.

"The situation remained dire until 2004/2005 with the introduction of new activity through the increased involvement of the public sector and the emergence of new private funds.

According to the research a number of new and mostly private sector fund managers started offering VC from 2007 resulting in 2008 reporting the highest number of VC deals in recorded SAVCA history. ♦

The announcement that Agri Vie, a sub-Saharan private equity fund investing in food and agribusiness, has acquired a strategic minority stake in Asilia, a leading East African eco-tourism group with up-market lodges and camps in Tanzania and Zanzibar, marks the coming of age of environmentally friendly private equity investing.

Environmentally friendly equity

This is Agri-Vie's first foray into the eco-tourism sector, with previous investments made by the private equity fund being predominantly in the food and agribusiness sector.

According to Herman Marais, Agri-Vie CE,

eco-tourism is set to experience sustained growth in Africa over the next few decades, as investors increasingly recognise the sector as being a viable and investible industry.

"While agribusiness remains the most

formalised industry in rural sub-Saharan Africa, we believe eco-tourism is ready to make a quantum leap from lifestyle and ego operators, to become a sustainable and investible industry that can add value to



Jeroen Harderwijk

conservation and economic growth in the region. With such untapped potential, we are confident that eco-tourism is set to be one of the key sectors in Africa over the next 30 years.”

He adds that there are clear synergies between agri-business and the tourism sector, which provides a ready market for local food products and other supplies.

“The Agri-Vie fund’s investors recognize the commercial and developmental synergies between agribusiness and ecotourism in the rural development context of Africa.”

Another player in the sector, Wilderness Safaris, recently listed on the stock JSE, providing further evidence of the evolution of the eco-tourism sector into an investible industry.

He says Asilia – which generates around US\$10m in revenues annually from four safari camps and a luxury lodge – is an important part of this growing trend.

“Asilia brings a much-needed corporate approach to the business of eco-tourism, which will help to improve the profile of tourism industry in Africa and enable it to build scale and harness the potential of the region.”

Marais says that the investment also remains consistent with Agri-Vie’s stated mandate of making investments into sustainable businesses that are not just profitable, but also have a positive impact on the region in which they operate by promoting socio-economic development. “Asilia already employs more than 350 people in the region, who in turn support hundreds more household members. Business revenues also fund conservation institutions and projects,

thus helping to secure Africa’s wildlife legacy.”

Jeroen Harderwijk, Managing Director of Asilia, says the capital from the investment will be used to finalise ongoing projects as well as helping to fund the group’s expansion plans. “We are already one of the top three players in the eco-tourism market in Tanzania and we are in advanced talks to move into the Kenyan market.

“We see both these markets as a core part of our future strategy and our vision is to become a regional leader in the eco-tourism business.”

He says the tourism industry in Tanzania and Kenya currently attracts 800 000 and 1 million tourists each year respectively. “The world is finally waking up to Africa as a prime tourism destination and we expect these numbers to grow from their current base as the region gains further recognition in global markets.”

Harderwijk says one of the keys to operating successfully and sustainably in the East African region is to establish strong relationships with the local communities. “There are unique challenges that one faces in creating tourism establishments in these regions and to deal with these effectively, it is vital that companies work with the local people, not only by providing much-needed employment but also by incorporating them into planned developments in order to have a positive impact on the region.”

Following hot on the heels of Agri-Vie’s foray into the eco-tourism business Marais was jubilant over the successful final closing of its first fund – an achievement not to be sneezed at considering the prevailing risk averse and unfriendly capital raising market.

The fund attracted investments of US\$110m, 10% higher than originally anticipated.

“We anticipate launching a follow-on private equity fund with the same mandate to invest in food and agribusiness in Africa,” says Marais. “Given the success we have seen, we would expect this fund to be larger in size and to also venture into central parts of Africa, as well as South and Eastern Africa.

“We are currently establishing a presence in Nairobi, Kenya, which will be Agri-Vie’s first permanent presence outside of South Africa, reflecting the long term view we take with our investments,” says Marais.

The fund, which was initiated by SP-aktif and Sanlam Private Equity, capitalises on the growing markets for processed food in the major cities of Africa as well as export



Herman Marais

opportunities. The fund already has a base of strong blue chip investors with Sanlam Life, the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC) and the Kellogg Foundation already invested.

Agri-Vie also recently welcomed three new investors including Norwegian development finance institution Norfund, the European Investment Bank and the International Finance Corporation (IFC), the private sector arm of the World Bank.

Marais says about 30% of the fund has now been fully invested in a variety of businesses mainly in East Africa and South Africa. “Our investment team continues to look at targeted investments within the sector and we are in active talks with other companies. We are confident that we will be able to deploy the rest of the capital over the next 24 to 36 months,” says Marais.

Marais attributes Agri-Vie’s success to the vision of establishing itself as an impact investment fund, combining equity related returns with demonstrable development impacts in the regions in which it operates such as job creation, food security, entrepreneurial development and environmental benefits.

“There is a growing international interest in impact and social investments, which seek to combine financial objectives with meaningful development impacts in societies around them.”

He says this is a critical part of Agri-Vie’s investment philosophy and the investment team monitors not just the financial progress of the companies but also the progress in developing its socio-economic impacts. ♦

Remarkably, Vlisco Group is a 164-year-old business.

Actis setting the trends in West Africa

New Head of Actis's West African operations, Ngozi Edozien, who joined Actis from her position as the founding CEO of the Equity Vehicle for Health in Africa last year (**Catalyst, Vol 6. No 2. Pg 2**), is starting to find her feet with the announcement in September that Actis has acquired Vlisco Group, the market leader in designer wax fashion fabrics for US\$151m. A fashion firm which contributes to multiple West African economies with diverse brands ranging from luxury, through its mid-tier business Uniwax; to contemporary, GTP and Woodin. The brands have a strong following among African consumers and are also drawing increasing attention from luxury fashion designers globally.

The company designs, manufactures and distributes 51 million yards of branded fabric a year for consumption primarily in West and Central Africa. It has a strong retail presence in many countries including

the Democratic Republic of the Congo (DRC), Ivory Coast, Ghana, Togo and Benin. Its manufacturing operations are based in Holland (Vlisco), Ghana (GTP and Woodin) and Ivory Coast (Uniwax and Woodin).

The success of Vlisco Group underlines a growing global demand for African culture and fashion, running parallel to Africa's economic growth and what former South African President Thabo Mbeki referred to as the dawn of the African Renaissance. The fabrics which vary from traditional to contemporary are always highly innovative in design and colour.

The Group employs more than 2,100 people directly, of whom nearly three quarters are based in West Africa. The downstream supply chain indirectly employs many more, supporting entrepreneurialism among distributors, shopkeepers and tailors.

"The Vlisco Group portfolio of brands are contemporary, proudly African and

share an extraordinary heritage of design innovation; grounded in tradition but adapted to the needs of a growing consumer class," enthuses Paul Fletcher, Senior Partner at Actis.

Actis will work with the Vlisco Group management team in distribution, marketing, and other operations, while also bringing expertise in environmental, social and governance standards.

The private equity behemoth is undeniably bullish about the prospects for emerging markets that are being driven by the increasing strength of the consumers in these economies.

Actis partner John van Wyk told *Engineering News* in September that the firm was tracking an increase in consumer market spending in the developing world because of improving wealth and prosperity in these markets, partially driven by robust infrastructure spending programmes. ♦

SOUTH AFRICA PRIVATE EQUITY DEALS Q1, Q2, Q3 & Q4 2010

NATURE	PARTIES	ASSET	ADVISERS	VALUE	DATE
Acquisition by	Agri-Vie	equity stake in Dew Crisp	Bowman Gilfillan	not disclosed	Feb 3
Acquisition by	Aurora Empowerment Systems from Link Private Equity	45,7% stake (90 106 335 shares) in Labat Africa	Vunani Corporate Finance; Arcoy Moela; Eversheds	R4,5m	Feb 9
Sale by	Labat Africa to Link Private Equity	all assets, subsidiaries and liabilities	Vunani Corporate Finance; Eversheds	R6,6m	Feb 9
Sale by	Pamadzi Investments to BlueBay Asset Management, Capita SA Partnerships and management and staff	77% stake in Foodcorp	Capita; Nedbank; J.P.Morgan; Rand Merchant Bank; KPMG; Cliffe Dekker Hofmeyr; Paul Weiss; Shearman & Sterling	R637,43m	Mar 10
Acquisition by	Investec Africa Frontier Private Equity	7% stake in OK Zimbabwe	Webber Wentzel	\$4,4m	Apr 15
Acquisition by	Mayibuye from Blue Financial Services	64,9% stake in Blue Financial Services	Rothschild; PricewaterhouseCoopers Corporate Finance; Grindrod Bank; Garlickie & Bousfield; Cliffe Dekker Hofmeyr; Deloitte	R163m	Jun 10
Acquisition by	Trinitas Private Equity	stake in Le-Sel Research		R50m	Jun 17
Acquisition by	Brait from major shareholders	25% stake in Wilcor Drilling	Werksmans	R13,1m	not announced
Acquisition by	Imperial from Paladin Capital	49% stake in CIC	PSG Capital; Investec Bank; Merrill Lynch; QuestCo Sponsors; Tugendhaft Wapnick Banchetti; Engling Stritter	R354m	Jul 14
Acquisition by	Brait IV Investments LP, Brait IV SA Partnership (Brait SA) and Coronation Asset Management (Coronation Fund Managers) from Westbrooke and Interactive	16% stake (170 000 000 shares) in Buildmax	Java Capital; Macquarie First South Advisers; PKF; QuestCo; Read Hope Phillips	R42,5m	Aug 10
Acquisition by	Brait IV Investments LP, Brait IV SA Partnership (Brait SA) and Coronation Asset Management (Coronation Fund Managers) from minorities	53% stake in Buildmax (partial offer)	Java Capital; Macquarie First South Advisers; PKF; QuestCo; Read Hope Phillips	R31,26m	Aug 10
Acquisition by	Investec Africa Frontier Private Equity and Pan Africa Investment Partners	Equity investment in I H S Nigeria	Webber Wentzel	\$75m	Aug 16
Acquisition by	Imbewu Capital Partners	minority stake in construction firm Icon		not disclosed	Aug 26
Acquisition by	Paladin Capital	a further 26% stake in Curro		R52m	Oct 1
Sale by	Dialogue to CaroCapital	51% stake in ContinuitySA	PSG Capital	R35m	Oct 27
Acquisition by	Consortium led by D Kan and Trinitas Private Equity from Mustek minorities	Mustek	Deloitte	R605m	Dec 17
Sale by	Brait to Kansai Paint	27,6% stake in Freeworld Coatings	Cliffe Dekker Hofmeyr; Bowman Gilfillan	not disclosed	not announced

National news

SAVCA membership is growing: Musa capital Fund Managers; Nodus Equity; Senatla Capital; Tamela Holdings; Utho Capital Fund Managers; and Zico Capital are the newest additions to the SAVCA family.

International round-up

The *Financial Express* reports the bottom of the pyramid is becoming the fastest growing playground for private equity and venture capital funds in the US, with a staggering increase in capital invested across social ventures –US\$404m in 2010 compared with US\$150,36m in 2009. And, in a turn of focus, more and more mainstream PE/VC funds are also venturing in this hitherto reserved space of social venture capital funds, making the investment play in the segment dynamic like never before. ♦

The Daily News Egypt reports that competition amongst private equity funds in the region is heating up.

“The private equity market is growing too fast, there is only so much ‘sand in the box,’ and there is more competition than before in the market,” Karim Sadek, managing director of Citadel Capital, was quoted as saying at the Super Return Africa private equity and venture capital conference taking place for the first time in Egypt.

Sadek added that “it will take time for people to get used to investing” on the continent.

Joachim Schumacher, head of Equity and Mezzanine, noted that there are new funds of varying types, but the private equity environment is lacking compared to Asia, Eastern Europe and Latin America.

He stated that this is due to private equity investors’ “lag in the perception of reality.” ♦

It has been a good year for private equity according to the *Financial Times*. The debt market for buy-outs is frothier than it has been since the global financial crisis wiped out collateralised loan obligations and other toxic fixed income products in 2008. The demand for yield in a low interest environment has carved out a whole new market for high-yield bonds issued by companies that are raising an average of three to five times their annual earnings for buy-outs.

James Coulter, a founding partner of Texas Pacific Group, a private equity firm that owns five companies that raised US\$3,6bn in bonds with high interest rates ranging from 7,375 percent to 9,75 percent in six issues between May and November 2010, told the *FT* that “[t]his year is going to be the biggest high yield market ever.” ♦

A year ago, when Australia began a push to tax profits from private-equity deals, the industry warned that buyout funds would take their sought-after capital elsewhere.

The evidence suggests otherwise according to the *Wall Street Journal*.

By the time Australian tax authorities upheld their initial tax decision in December 2010, foreign-based private-equity firms had announced a slew of deals involving Australian firms. Private-equity deals in 2010 totaled US\$5,2bn in value, up more than eightfold from 2009 and the largest amount since 2006. ♦