

Private equity likely to weather Covid-19 storm

The private equity industry's resilience in the face of weak macroeconomic circumstances during the 2019 bodes well for the industry's ability to navigate the Covid-19 crisis, according to the Southern African Venture Capital and Private Equity Association (Savca) 2020 Private Equity Industry Survey.



Tanya van Lill, CEO, Savca

There's no denying that the first half of 2020 has been a total whirlwind, but this latest survey – albeit based on 2019 data – provides useful insight into industry trends and signals the valuable role that private equity will play in the region's economic recovery," said Tanya van Lill, CEO of the Savca.

She highlighted a significant increase in funds under management. "The private equity industry had R184.4bn in funds under management (FUM) at 31 December 2019, up from R171bn in 2018, representing a compound annual growth rate (CAGR) of 9.2% since 1999 when the survey first began.

"This increase in FUM is a positive indicator for the industry, as it should lead to increased investment into the region," she said, adding that despite Southern Africa's tough economic conditions over the past few years, the industry was still able to raise R21.7bn in 2019 – an impressive 69.5% more than the R12.8bn raised in 2018.

The funds raised, R7.7bn (35.3%) stemmed from South African sources, with R3.7bn of total funds earmarked specifically for investment in South Africa.

"The cost of investments in 2019 totalled R25.4bn – with the top sectors invested in being infrastructure and energy, followed by telecommunications, retail and real estate. Also interesting to note is that – as a proportion of investments made by cost – over 50% of the investments made were to support portfolio companies with expansion and development," she said.

Infrastructure investment

There has been a significant surge in infrastructure investment, from 6.1% in 2018 to 34.7% in 2019, including the positive knock-on effects this offers.

"Private equity investment in African infrastructure has been an emerging theme over the past decade, with funds from various regions investing actively in infrastructure projects in the energy, transport and ICT sub-categories.

"This can and does serve as a catalyst for development on the continent, in a way that fosters the achievement of targeted and specified developmental goals. Moreover, infrastructure investment opens up new opportunities for add-on or related investments. For example, a toll road project creates the scope for property development, and a host of other down-stream investment activities," Van Lill said.

Funds returned to investors in 2019 totalled R12bn, with disposals during the year amounting to R5.3bn. "In comparison, the annual average funds returned to investors over the last five years (2015-2019) was R14.3bn, with disposals averaging R8.6bn over that period," she said.

Finally, the report offers valuable insight into the transformation that has been realised over the past year, not only through investments, but also through the private equity professionals that form part of the industry.

Professionals

In 2019 we saw an increase in African professionals in the industry, which now account for 43.2% of all professionals (2018: 34.9%).

The industry is also having a positive financial impact on portfolio companies. "Also encouraging is that the vast majority (98%) of fund managers now consider, at a minimum, environmental, social, and governance (ESG) factors when making an investment decision, and 78% of fund managers indicated that their key performance criteria are linked to achieving goals that go beyond financial returns. Findings from the 2020 survey show total earnings before interest, tax, depreciation and amortisation (Ebitda) for all portfolio companies captured by the survey increased by an average of 21.4% from 31 December 2018 to 31 December 2019.

"Over the same period, the total number of employees for portfolio companies increased by an average of 23.5%, while total revenue of the portfolio companies climbed by an average 27.4%. Similarly, the total capital expenditure of portfolio companies increased by an impressive average of 44.1% from 31 December 2018 to 31 December 2019.

"With many companies around the globe potentially re-evaluating their supply chains in the wake of Covid-19, it is increasingly likely that African economies will look inward to source their needs from a more local footprint. With the need for a more inclusive and sustainable development path, this provides numerous opportunities to making a long-lasting, meaningful impact to millions of people through the investments made by private equity funds, in addition to generating returns," Van Lill said.