

ATTRACTING LONG-TERM PRIVATE EQUITY OPPORTUNITIES IN SOUTH AFRICA

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ABOUT THE AUTHOR

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KEY TAKEOUTS

- WE ARE OPTIMISTIC ABOUT THE LONG-TERM MARKET OPPORTUNITY IN PRIVATELY HELD COMPANIES, PARTICULARLY IN THE MID-MARKET SPACE.
- THE ULTIMATE TEST IS TO BE ABLE TO SUCCESSFULLY EXECUTE INVESTMENT STRATEGY REGARDLESS OF THE OPERATING ENVIRONMENT.
- THE MESSAGE WE ARE EMPHASISING TO INVESTORS IS THAT WE WILL CONTINUE WITH OUR PROVEN STRATEGY.
- THE ECONOMIC ENVIRONMENT IS RIPE FOR IMPROVEMENT AND WE EXPECT IT TO FARE BETTER OVER THE NEXT FIVE TO TEN YEARS, COMPARED TO THE LAST FIVE YEARS.



Old Mutual Private Equity (OMPE) is optimistic about the long-term market opportunity in privately held companies, particularly in the mid-market space. To this end, OMPE has recently fully deployed its fourth fund, the OMPE Fund IV – a 2014 vintage fund invested in eight high quality businesses, with five of eight businesses in the mid-market category. The fund has shown significant resilience in a very tough operating environment over the past five years, which have arguably been the toughest five years in South Africa since the advent of democracy. The ultimate test for any respected private equity manager is to be able to successfully execute its investment strategy regardless of the operating environment. In this context, we are pleased with OMPE Fund IV, which has been able to craft and build a fund comprising eight high quality investments (which represent our top eight ideas over the past five years), and has already realised one very successfully. OMPE Fund IV is now entering its harvesting phase over the next three years and we look forward to successfully delivering market-beating returns in a very tough market.

The OMPE Fund IV is fully deployed, now raising OMPE Fund V, which is targeting a financial commitment of approximately R5 billion, with its first close being 31 December 2019. The message we are emphasising to investors is that we will continue with our proven investment strategy utilised in the OMPE Fund IV. This involves focusing on proprietary and exclusive deal flow in the mid-market space on companies with strong management teams and market share growth strategies. In addition, including large buyouts that position us with a distinctive edge over other bidders. We believe the economic environment is ripe for improvement and we expect it to fare better over the next five to ten years compared to the last five years – further benefiting prospects for the OMPE Fund V.

Regardless of the environment, OMPE has a solid track record in delivering top-tier performance. Our experience has also taught us that it is in challenging operating times where astute investment decisions can unlock sizeable opportunities. Our recent investment in Footgear is one such example. Whilst

the retail space in general has been challenging, there are still pockets of opportunity. OMPE Fund IV backed the Footgear management team to acquire Edgars Active, which was deemed to be non-core to the broader Edcon Group. Edgars Active has doubled Footgear's store footprint, affording Footgear the opportunity to triple its store footprint instantly and replicate its winning formula across a much larger footprint at a fraction of the cost it would otherwise have incurred to roll out the footprint itself. The point is that this opportunity would perhaps not have been available in a seemingly better operating environment.

So yes, we are definitely pro SA for good reason – we believe there are significant and justified long-term market opportunities, particularly in the mid-market arena, which will benefit the OMPE Fund V in a more favourable economic environment. Nevertheless, regardless of what the future holds, the OMPE team has the experience, expertise and track record to deliver attractive returns on the OMPE Fund V, similar to its predecessor funds, where all four of them have been top performers in their vintages.