

Profile

Vantage Capital recently opened offices in Cairo and in so doing has established itself as a major Pan-African private equity player. Catalyst met up with co-founder Colin Rezek and Luc Albinski who heads up the mezzanine fund, to uncover what it took to create one of the most successful independent private equity funds in South Africa

Not shy to take (ad)vantage

Rezek, after graduating with a BCom and MBA, was enticed by the family into the motor business, which he grew over time from one dealership to become the largest privately owned motor group at the time with 11 dealerships employing up to 400 people.

"At that point we decided to merge with the larger Williams Hunt group and then sold that business off to Unitrans,"



Albinski

explained the stylishly attired Rezek.

"So, in the late 1990's I was looking to change direction and I met my original partner, former Savca chairman Mute Mogase, who is now chairman of Vantage. Mute and I decided to establish a private equity business and by the end of 2001 we raised our first fund, a technology fund."

In fact Vantage Capital was one of the first black-owned and managed private equity companies in South Africa, and is

one of few remaining independent black-owned private equity and investment companies which are not linked to any major financial institution.

Launched in 2001 after a merger with MMR Equity Capital, the venture capital Technology Fund received commitments from the Industrial Development Corporation (IDC), the Transnet Retirement Fund and the Eskom Pension and Provident Fund.

It was a remarkable time to be raising a tech fund with the sound of the bursting dotcom bubble still ringing in investors' ears; something Rezek is quick to admit.

"Yes, at the time we took on the challenge and I think we're happy to say that we developed it into a decent fund with good returns and, in fact, one of the competing funds at the time lost 100% of the capital. So we showed our mettle at the time."

The Technology Fund has invested R130m in 10 investments ranging from small start-ups to larger, established listed entities. Five investments, Mosaic Software, VoxTelecom, ComTech, Aquitec and Grapevine have been successfully exited. The remaining actively-managed investments are all cash flow positive and have exciting growth plans. The fund is now closed, although additional funding is available for follow-on investments.

"We then developed the Group to do some on-balance-sheet investments and increased our empowerment stake to 50% so that we could play in the empowerment space," says Rezek.

In the latter part of 2004, Vantage Capital Investments was established to source proprietary investment opportunities, which would not conflict with the existing Technology Fund in terms of industry sector and size of transaction. To date,

Vantage Capital Investments has participated in three such transactions (Incwala, ComCorp and Kwikspace) and is in the process of considering several more.

Incwala never reached the potential that mining rainmaker and brains trust behind the project, Brian Gilberston, had hoped for but Kwikspace proved to be a real success in a very short space of time.

"We invested into Kwikspace as a BEE



Rezek

partner, listed the business with the shareholders and then with Absa Capital delisted the company 14 months later," explains Albinski, who puts the exceedingly quick turnaround time down to a bit of good fortune.

"It's really a sign of the times. When we got the business it was booming and we listed it but then the markets collapsed and investors weren't interested in smaller companies. Kwikspace had a mar-

ket cap of under R1bn and interest in the stock just evaporated and we felt that by delisting it we could acquire a larger stake in the business so our shareholding went up to 45% and we now have much more influence on the day-to-day operations and management of the business.”

“Once we had invested the tech fund and concluded the balance sheet transactions we decided that it was opportune to get involved in mezzanine financing,” says Rezek.

In early 2005 Vantage Capital started to explore the possibility of raising a second fund. With the help of the Netherlands Development Finance Company (FMO), it was decided that the low interest rate environment then prevailing in SA - which represented a significant departure from the high interest rates that characterised the eighties and nineties in the country - supported the establishment of a mezzanine or risk capital fund.

The fund raising process culminated in the final closing of the Vantage Mezzanine Fund in November 2007, with commitments of just over R1bn (US\$125m). One-third of the funds were raised from foreign investors and the balance from local institutions and from the group as a co-investment commitment.

“It’s a general fund,” says Rezek. “We invested in five different sectors including media (Primedia), food, catering and facilities management, (Tsebo) recycling ferrous and non-ferrous metals (Reclam) and chemicals (Safripol).

“In three of the five deals we did take equity sweeteners to enhance our returns. We have also funded empowerment deals and these deals are suited to

“The demand is getting stronger due to the massive impact that Basel II is having on the banks”

mezz because they’re less dilutive but we do take equity upside in those investments,” adds Rezek.

Albinski believes the time for independents’ to take a larger slice of the mezzanine financing pie has arrived. And that’s thanks mainly to one thing.

“The demand is getting stronger due to the massive impact that Basel II is having on the banks,” opines Albinski. “This means that the capital that the banks have to set aside for their mezzanine positions has increased three fold so mezzanine has become quite pricy for the banks from a capital point of view. Therefore, they are unlikely to want to take big chunks and that opens up the market for independent

funds like ourselves. We see Basel II as a long-term structural change to the market that will support the growth of independent mezz funds.”

Vantage is uniquely positioned as the only independent mezzanine fund in South Africa and also the first independent Pan-African mezz fund of substance.

This is imperative for Vantage’s growth as the company is establishing infrastructure in Botswana and more recently Egypt with the launch of its Egypt office in February 2010.

“We are quite focussed on North Africa,” says Rezek. “Egypt is the second biggest private equity market in Africa with a high degree of sophistication and lots of capital so it makes perfect sense for us to open an office in Cairo to help service our Gulf investors.”

“We are currently looking at a couple of deals in Kenya, Nigeria and even some more exotic locations such as Liberia and Equatorial Guinea.

With the first mezzanine fund over 97% invested, Vantage is now in the process of raising a second mezzanine fund which will be a substantially larger fund. Vantage will seek to capitalise on its strong position in the South African mezzanine market to build a portfolio of income generating mezzanine assets locally and in the rest of Africa.

Mutle Mogase, Chris Lister-James and Colin Rezek, the three founders of Vantage Capital, remain the driving force behind this success story. ♦

The general perception that private equity is generated by a race for quick profits, and does so without care for individuals or the companies concerned, an impression encouraged by the media, has no basis in fact. That’s the outcome of a detailed and exhaustive research project, the results of which were released on October 2009

No barbarians here

The first edition of the highly anticipated study entitled: *Economic Impact of Venture Capital and Private Equity in*

South Africa 2009, produced findings which will provide general partners with enough ammunition to make a

firm case for increasing investment limits into private equity by pension funds and the like.