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Understanding the information considered in private equity buying decisions in South Africa

Olivey, Warren

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Abstract

The South African Private Equity Industry collects billions of Rands from investors locally and abroad and utilises this cash to purchase controlling shares in companies operating within Africa. Within 5 to 10 years of purchase, these companies are purposefully altered, upgraded and moulded prior to resale. Each Private Equity firm has different growth targets, but the generally expected result should be a multiplication of the funds invested over that time. The mechanism by which these firms accomplish such a result was of strategic importance for business people whom wish to decode the route to success and apply the same actions in their organisations, or those they wish to evaluate for purchase.

This research aims to bridge a particular aspect of this process by acknowledging that the choice of company to purchase was critical to the overall ability to grow and dispose of the company in the allotted timeframe. In the run up to purchasing a company, Private Equity will contract external firms to delve into a potential Target Firm. These Service Firms will report into the Private Equity client on particular aspects of operations, finance and legality that would affect future running and risk profiles. These reports would inform the buying decision, potential pricing structures and legalities of ownership transfer right up to the point of sale.

The evaluation stages are graphically modelled as three distinct but sequential Phases at the end of an extensive literature review. This Conceptual Model is tested against the results of a series of semi-structured interviews held with industry experts. The opinions of local Private Equity and Service Firm respondents are sorted, refined and presented as a more detailed Modified Model at the end of the report. It was found that through substantial refinement of disconnected data, the available literature largely agreed with expert opinion in practice.

The research concludes that the proposed evaluation Models constitute a useful starting platform from which to conduct future research into specific aspects of Private Equity activity.