

Title: **Private Equity: The Exit Strategy Conundrum**

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## ABSTRACT

This research report investigates the influence of economic cycles on the private equity exit medium and the related acquisition finance sources used in the exit of an investment. This study adds to the current body of knowledge by generating a suggestive investment exit working model for private equity fund managers in South Africa. A portfolio construction method was used to determine the dominant private equity exit medium in South Africa between IPO's and M&A's for the years 2004 to 2013. The results indicate that on a cumulative and annual comparison basis, IPO private equity exit mediums are more dominant than M&A private equity exit mediums. The results further indicate that IPO private equity exit mediums are more successful during favorable economic conditions as opposed to M&A private equity exit mediums. Conversely, M&A private equity exit mediums are more prevalent during less favorable economic conditions. The favorability of economic conditions was observed through annual GDP indicators. Ancillary investigations in this study indicate that the dominant source of acquisition finance at the point of private equity exit in South Africa is private equity. This implies that certain investments are particularly attractive to private equity investors and are therefore refinanced through private equity by subsequent acquirers. It is also evident that the activity of private equity exits in South Africa is quite negligible as a proportion of total international activity.

### **Abbreviations**

GDP - Gross Domestic Production

IPO - Initial Public Offering (Listing of a corporate entity's equity shares on a public securities exchange)

M&A - Merger and Acquisition

### **Definitions**

Private Equity- An asset class of equity instruments (held in an established operating company) which are largely financed by debt and are not traded on a public securities exchange.

Private Equity Exit- The procedure that a private equity investor follows to partially or completely divest from its ownership and control in an investment.

Private Equity Exit Medium- The channel, such as IPO or M&A, through which a private equity exit is executed.