

Case study

Georgepipe's Mezzanine Debt

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In a deal that closed in 2007, Ethos Private Equity purchased Georgepipe, a maker of water and sewer pipes and fittings for municipalities and private developers, from the family that owned the company. The company is based in George, an industrial town in South Africa's Western Cape province. It supplies pipes, fittings and water system equipment to customers throughout the Western and Eastern Cape. The R200 million purchase price was equivalent to 6.5 x EBITDA.



Of the equity, Ethos contributed 85% of the total, with management chipping in 10%. Lender Nedbank filled in the remaining 5% gap. Total equity represented approximately 40% of the purchase price. Based on a 6% real growth rate, the equity sponsors have estimated a 27% rate of return in this investment.

On the debt side, Nedbank led a R120 million senior facility, along with ABSA and Old Mutual Capital Corp. The senior debt component also contains a revolver to be used in the future as working capital (and not included in the R200 million purchase price). Vantage Mezzanine Fund provided a subordinated note in the amount of R34 million.

A summary of the financing terms follows:

- Senior debt: Jibar + 4.50%, 4-year amortization
- Subordinated notes:
 - 4% cash interest
 - 8.5% pay-in-kind interest
 - Warrants to purchase 5% of the company's equity at \$0.0005 per share
 - Repayment after 5 years or at exit event
 - Fees 1.5%
- The equity investors were seeking an estimated 27% rate of return.

Question: *What is the effective rate of return to Vantage, the mezzanine investor?*

Vantage Mezzanine Fund

Vantage Mezzanine Fund, launched in October 2006, is managed by Vantage Risk Capital, which is majority owned by Vantage Capital Group, an independent, majority black-owned and managed business, based in Johannesburg. The management of the Fund will be led by Luc Albinski, previously Head of Mezzanine Finance at Standard Bank South Africa (SBSA), and Colin Rezek, co-founder of Vantage Capital Group in 2001 and formerly a successful entrepreneur.

In 2005, private equity funds totaling R2.55 billion (€265 million) were raised for investment in South Africa, with 62% of this deriving from European sources compared to 7.5% in 2004. In 2005, the largest proportion of funds was raised for buyouts (source: African Venture Capital Association Investment Activity Report 2006).

The Vantage Mezzanine Fund will provide mezzanine finance to South African mid-cap companies with an enterprise value of between R150 million to R750 million (€15 million to €77 million) targeting a mixture of growth, buyout and refinancing capital.

The Fund has attracted commitments from other international investors include FMO, the Netherlands Development Bank, and Germany's DEG, as well as the Public Investment Corporation, the Eskom Pension and Provident Fund, Transnet Pension Fund and Metropolitan Asset Managers.

The Fund held a first closing of R310 million (€32 million) in August 2006 and will hold a final closing in August 2007 with a target of R550 million to R600 million (€57 million to €62 million).

Vantage Group

- Vantage Capital Group led by Mufle Mogase was established in 2001 as an independently black owned and controlled venture capital fund focussing on technology investments.
- The company's mission is to consistently deliver sustainable returns to its stakeholders by identifying, structuring and managing investments.
- In the six years since inception, the venture capital fund has invested R130 million (€13 million) in 10 investments ranging from small start ups to larger, established listed entities.
- In 2004, Vantage Capital Investments was established as a subsidiary of Vantage Capital Group to source investment opportunities arising out of the BEE Charters. Vantage Capital Investments has participated in three such transactions and was one of the three cornerstone BEE groups in Incwala Resources.
- In 2006 Vantage Capital Group launched Vantage Risk Capital, an independent provider of capital in the form of debt and equity funding to medium-sized South African businesses seeking to either expand their operations or change the structure of their ownership.
- For further information www.vantagecapital.co.za

