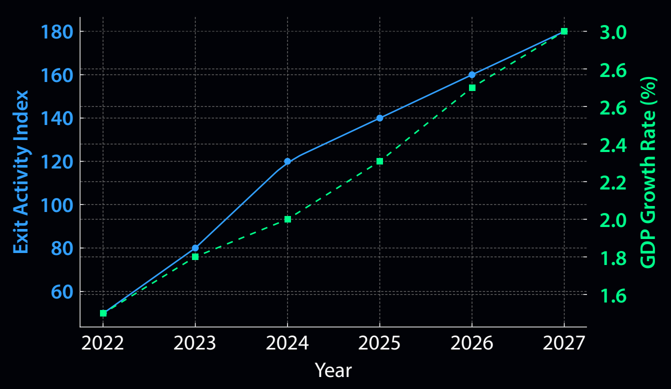
PRIVATE EQUITY'S EXIT MOMENTUM EXPECTED TO CONTINUE IN 2025

By Ngange Nongogo, Private Equity Partner and Value Add Lead
Thurstan MoodleyJoint Managing Partner, Social Infrastructure
Siyasanga Mrabalala, Client Relations at Summit Africa

The South African private equity sector is well-positioned to maintain its momentum of increased exit activity, which started in the second half of 2023 and 2024, in an environment where the hope is that the South African economic growth rate will increase to 3% by 2027. This trend should result in significant investment flows back to domestic and international institutional investors and retirement funds.

South African Private Equity Exit Activity & GDP Growth Projections (2022 – 2027)

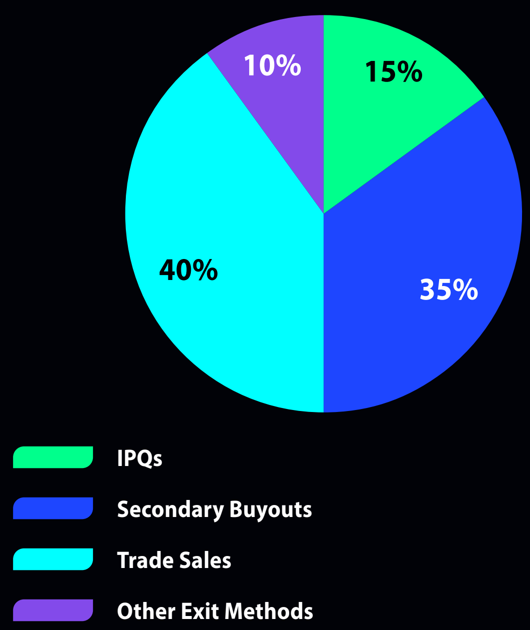


With ongoing accelerated structural reforms, declining inflation, declining interest rates and the anticipated improvement in market conditions, private equity exits via IPOs and leveraged buyouts are well positioned to gain traction in the latter half of 2025. The Rand's persistent weakness relative to other major currencies should further increase the attractiveness of South African companies to global investors seeking superior returns, increasing the pool of potential exit counterparts for South African private equity funds.

Market sentiment will be crucial, with global GDP growth projected at 3.3% in 2025-2026, below the 3.7% historical average recorded in 2000-2019, according to the International Monetary Fund (IMF).

Notable large private equity exits by South African-based private equity managers over this period include Old Mutual Private Equity's sale of Holdsport and Chill & Inhle Beverages, Summit Africa and Efficient Group's sale of Boutique Collective Investments to US-based Apex Group, Phatisa's sale of Rolfes, Infinite Partners' sale of Adumo, WearCheck and The Particle Group, Sanlam Private Equity's sale of Absolute Pets to Woolworths and Lereko Metier's sale of Oricol Environmental Services.

Figure 2: Distribution of PE Exit Stratergies in South Africa (2023-2024)



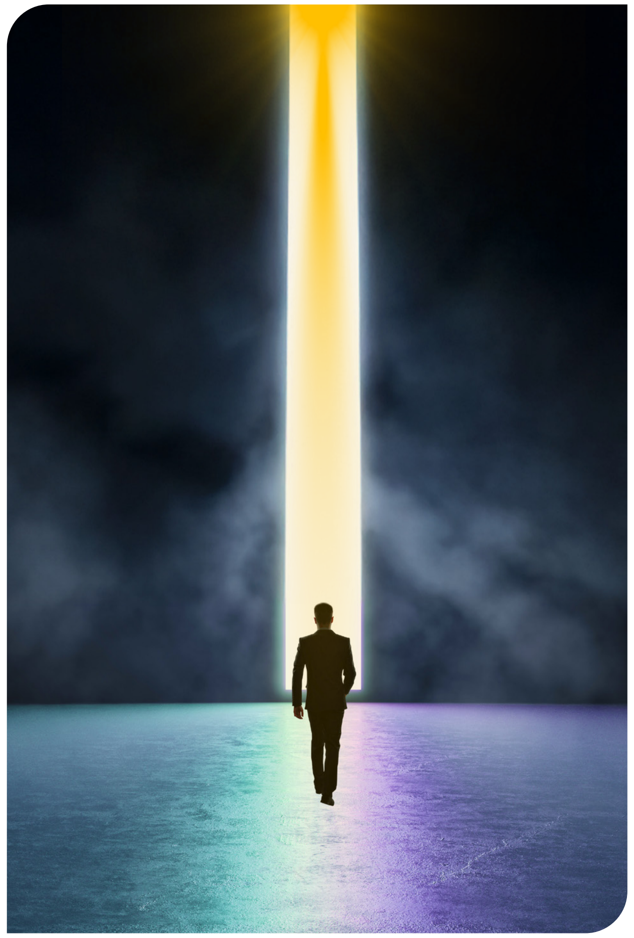
Source: South African Private Market Report 2024

> ***During this period, trade sales remained the preferred exit route, accounting for 40% of exits.***

During this period, trade sales remained the preferred exit route, accounting for 40% of exits. Secondary buyouts, where assets are sold to other private equity firms or financial institutions, accounted for 35% of exits; and Initial Public Offerings (IPOs) accounted for just 15% of exits.

Potential challenges to private equity exit activity in 2025

Prior to the second half of 2023, exit activity in South Africa's private equity sector faced significant challenges because of global and local factors such as the impact of the Covid-19 pandemic, geopolitical tensions and economic instability, combined with rising inflation and interest rates.



> ***Should the USA hold its interest rates higher for longer, this would result in lower portfolio valuations.***

While these hurdles have largely been addressed, new challenges that could impact the pace of private equity exit activity in 2025 include the impact of changes in global foreign policy by various players and tighter monetary policies. Should the USA hold its interest rates higher for longer, this would result in lower portfolio valuations, reducing the willingness or incentive for private equity investors to actively seek exits.

Alternative exit strategies for private equity fund managers

Below, we investigate alternative exit strategies for private equity fund managers should the traditional exit strategies not be available.

Exit strategy	Liquidity achieved for fund investors	Implementation period
Secondary buyouts or continuation funds	Moderate to high	6–18 months
Exits where a private equity firm sells portfolio company(ies) or asset(s) to another private equity fund or a newly created fund		
Partial sales – exits where a private equity firm sells a portion of the equity in a portfolio company.	Moderate to high	6 – 12 months
Self-liquidating exit strategies – where a private equity firm investor recoups capital through the portfolio company's own cash flows.	High	3–7 years
Debt recapitalisation – exits where a portfolio company uses third-party debt to facilitate a buy-back of the private equity investors shares.	High	6 – 12 months

Private equity exit activity is poised to remain strong in 2025. Exit strategies have evolved over time and private equity firms must stay agile, adjusting their exit approaches to navigate evolving market, regulatory and political conditions. We believe that if challenges emerge, private equity firms can navigate these obstacles by adopting alternative strategies centred to create liquidity and achieve their desired exit outcomes.

** Exits where a private equity firm sells portfolio company(ies) or asset(s) to another private equity fund or a newly created fund – second and third columns are blank*