

# A Life changing story

Old Mutual Private Equity team



In September 2011, Old Mutual Private Equity Fund 1 and Fund 2 sold the last of their shares in Life Healthcare – an investment that has recorded an internal rate of return (IRR) in Fund 1 of 62% since March 2005 and of 42% in Fund 2 since the follow-on investment in September 2006. Over the duration of the investment it delivered R3.1 billion back to investors, reflecting a multiple of total invested capital of 5.8 times.

Back in June 2003, Old Mutual Private Equity (OMPE), as part of a consortium, made their first offer to purchase Afrox Healthcare Ltd, a then-JSE-listed company controlled by Afrox. This initial bid fell through, but OMPE stayed close to the process and in the following year joined a consortium of RMB Ventures, Mvelaphanda, Brimstone, the IDC, Afrox, management and staff to buy the company. As part of this transaction, Afrox remained on as a 20% shareholder and a Staff Share Trust was formed for the benefit of all staff. This second bid was successful and in March 2005 OMPE invested R363m into the newly named Life Healthcare Group (Pty) Ltd – R100m as equity and R263m as preference shares, ensuring the company was BEE controlled. In September 2006, Old Mutual Private Equity Fund 2 exercised a call option and purchased a stake from Afrox for R169m.



Front to back, left to right: Farhad Khan, Ismail Mathews, Jacci Myburgh, Garth Solomon, Chumani Kula, Mark Gevers, Lance Grayson, Paul Boynton, Mohsin Cajee, Quinton Dicks.

The thesis behind the investment was based on:

- The market position and quality of the company;
- The strength of the management team;
- The potential growth in patients as a result of South Africa's growing middle class;
- A public service system that was under pressure; and
- The fact that we did not believe legislation was going to materially impact the future of private hospitals (which was contrarian to the conventional thinking at the time).

## Significant management actions pay off

Over the course of our investment in Life Healthcare, the company improved its operating margin from 21%

to 24.7% and has invested more than R3 billion into expanding its operations, consequently almost tripling operating income from R0.8bn in September 2004 to R2.1bn to September 2010. Over the period, the company also diversified its healthcare offering, sold its stake in its joint venture in the United Kingdom, upgraded its systems and continued to train over 1 300 nurses a year in its own nursing academy. It also focused on cementing its position as the low-cost producer in the industry, which has resulted in Life Healthcare dominating the market share of Preferred Provider networks in the industry.

Following the original investment in March 2005, OMPE executive Garth Solomon served on the board, chaired the Remuneration, Pension Fund and Investment Committees and was a member of the Audit Committee. Once Life Healthcare was re-listed, Garth was re-elected to the board and he continues to chair the Investment Committee and serve on the Remuneration Committee.

### Going full circle

Life Healthcare's Investment Committee was ultimately tasked by the board to oversee the re-listing of the company on the JSE in June 2010, in what were extremely volatile conditions. The successful listing, at a price of R13.50 per share, raised R5.25bn of new equity, 40% of which was sourced from offshore investors. This is the largest capital raising from an initial public offering (IPO) in the history of the JSE. Old Mutual Private Equity Fund 1 and Fund 2 sold down 20% of their holdings at listing and the remainder over the course of the following 15 months. The growth in the share price over this period vindicated the decision to stay invested in the listed entity.

The Life Healthcare share price was trading at R19.65 at the time of writing, and offshore investors represent over 30% of the total shareholder base, a huge endorsement of the successful re-listing of a high-quality company on the JSE. Post the listing, the **Share Staff Trust paid out R470 million to 12 000 employees** (61% of whom were black employees, predominantly nurses) – just one of the many fruits of a well-structured leveraged buy-out and an achievement we at Old Mutual Private Equity are extremely proud of.

As a result of the successful exit from Life Healthcare, we are one step closer to fully exiting Old Mutual Private Equity Fund 1. This fund is expected to close once we have received the Competition Commission's approval for the sale of Savcio, the last investee company in the fund. We expect this to happen later this year or early in 2012.

For investors wishing to include private equity in their investment portfolio, the Old Mutual Private Equity Secondary Fund currently has capacity available for investors. For more information on this fund, please visit [www.oldmutualprivateequity.com](http://www.oldmutualprivateequity.com). ■

**“Our investment in Life Healthcare has returned R3.1bn to investors, or 5.8 times total invested capital.”**