

# Private Equity in Africa: An Evolving Market

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- **Evolution of Private Equity in Africa**
- **Why Africa?**
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- **Market Players**
- **Fundraising**
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- **Investment Value**
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# The Africa of today is the beginning transformation of...

**54** African sovereign countries

**1**  
billion People in Africa

**52** The number of African cities with more than 1 million people each

**60%** Africa's share of the world's total amount of uncultivated arable land

**860**  
billion Africa's combined consumer spending

**20** The number of African companies with revenues of at least \$3billion

# ...the Africa of tomorrow

**\$2.6**  
trillion

Africa's collective GDP in 2020

**\$1.4**  
trillion

Africa's consumer spending in 2020

**1.1**  
billion

The number of Africans of working age in 2040

**128**

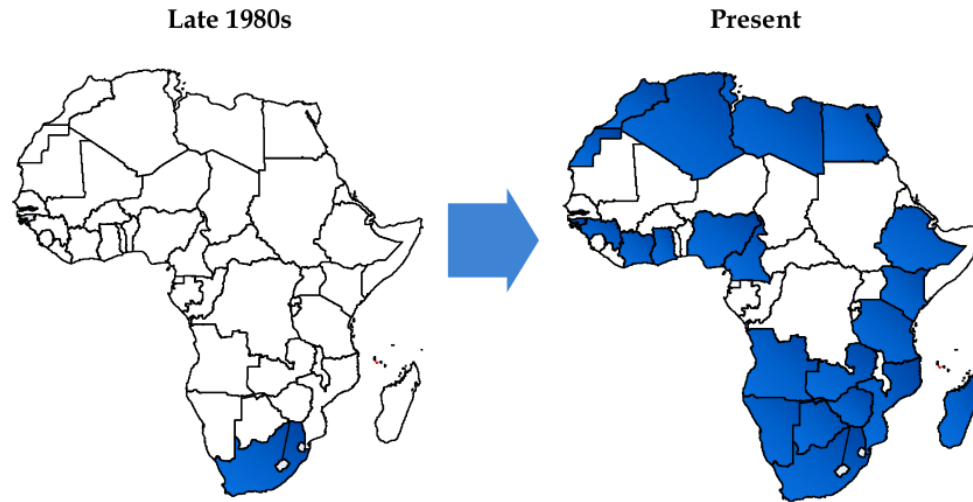
The number of African households with discretionary income in 2020

**50%**

The portion of Africans living in cities by 2030

# The evolution of private equity in Africa started in South Africa and evolved to countries across Africa

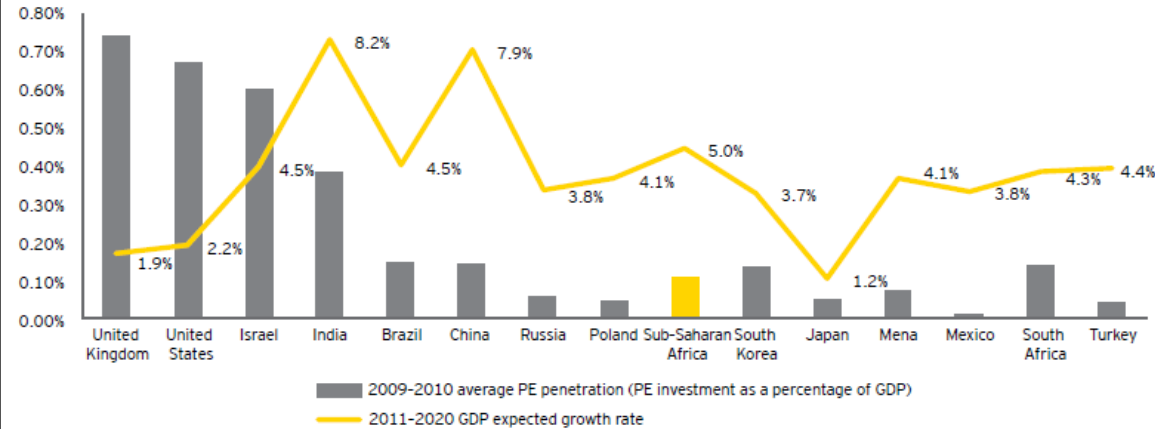
## Private Equity Presence in Africa



- History of private equity in Africa dates back to the late 1980s with the emergence of funds based and focused on South African
- In the early 1990s Development Financial Institutions supported fund managers with a broader mandate to invest across Africa
- The early 2000's witnessed an increase of funds generated by western-educated African general partners with a Pan-African investment focus

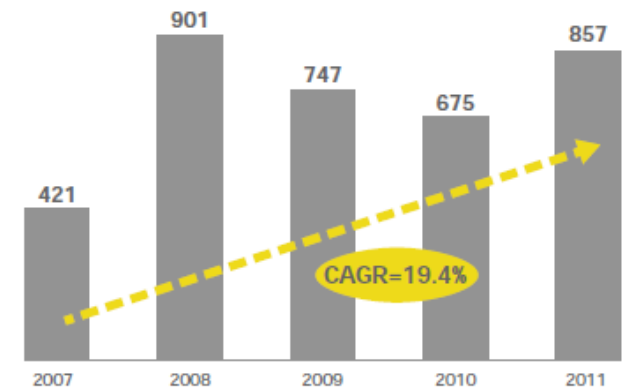
# What makes private equity in Africa attractive?

Figure 1. PE penetration relative to long-term expected growth remains low in sub-Saharan Africa and South Africa



Source: Emerging Markets Private Equity Association. Data as of 31 December 2010. Published 15 November 2011; HIS Global Insight

FDI projects in Africa have grown at a compound rate of almost 20% since 2007



Source: fDi Intelligence, data as of 3 February 2012; Ernst & Young.



PE penetration lags behind increasing GDP growth



Growing middle class indicates increase in purchasing power



Increase Foreign Direct Investment provides more access to capital



Regional cooperation among countries



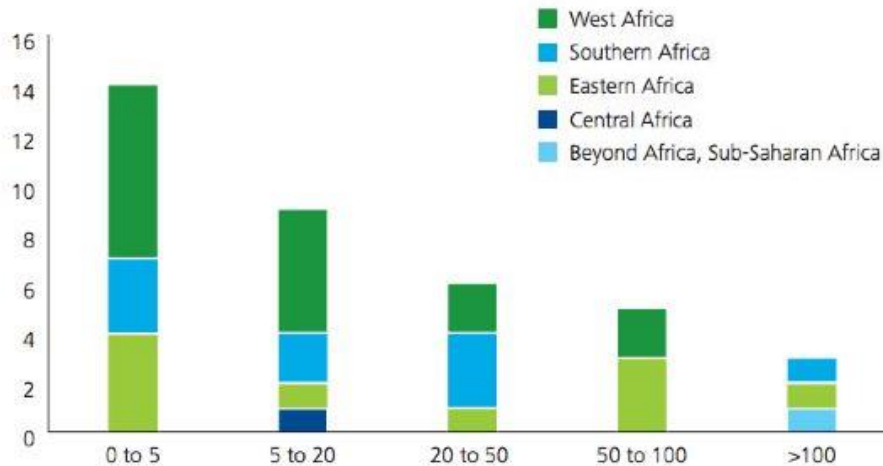
Political stability and stricter governance



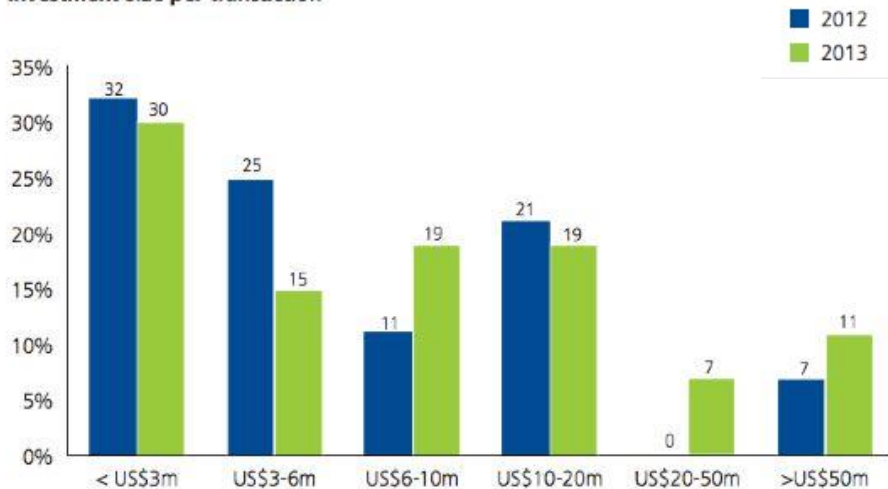
Great opportunities but limited capital input

# Private equity firms invested \$1.13 billion through 58 deals throughout Africa in 2012 but mostly in smaller deals

2012 Number and Reported Value (US\$m) of SSA Deals by Sector

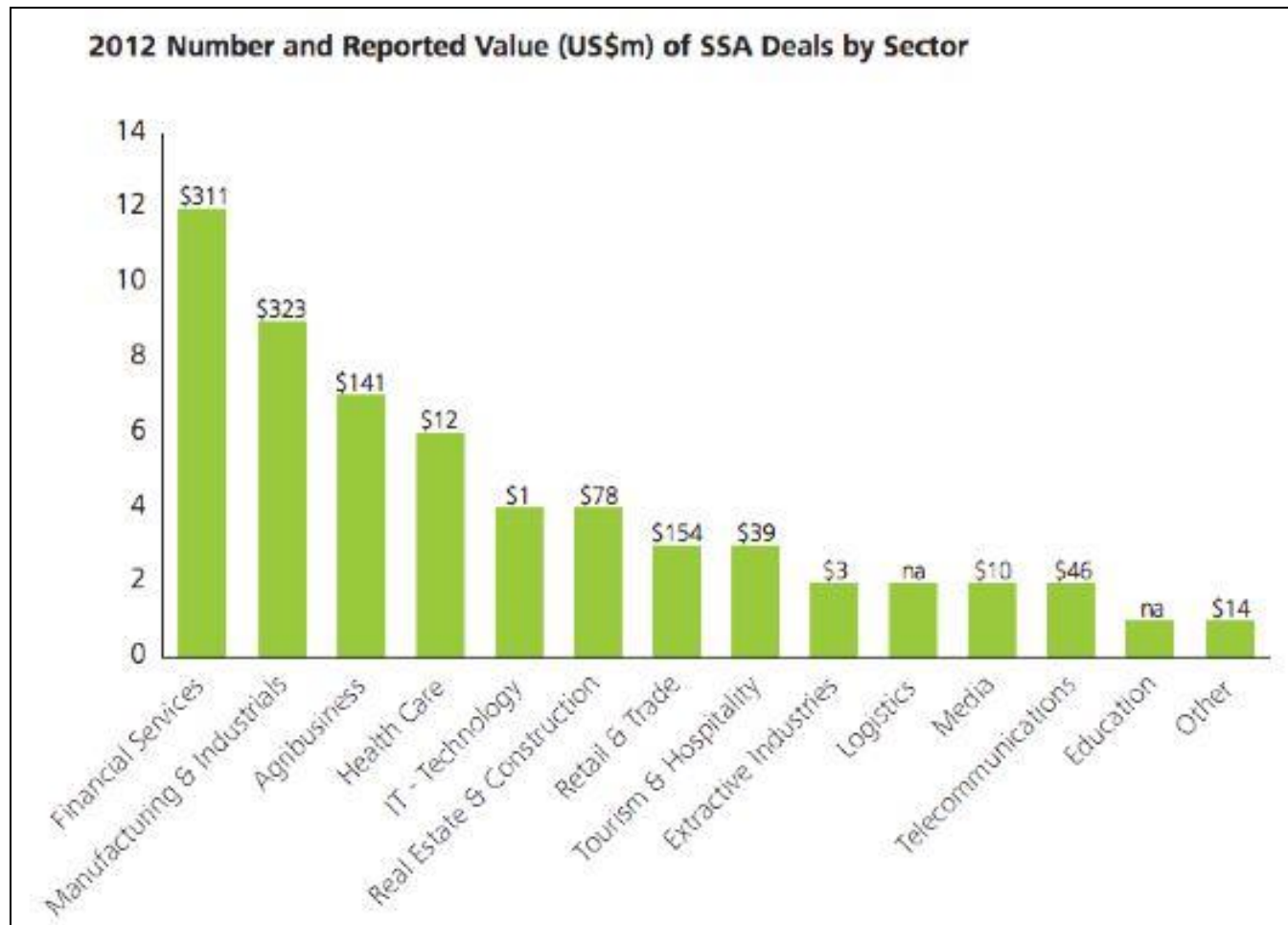


Investment size per transaction



- Private equity investment activity was spread across Africa but East Africa claimed the largest deals
- 45% of 2012 PE deals in Africa occurred in Kenya, Nigeria, and South Africa versus 60% in 2011
- Most deals reported existed within the \$0 - \$5 million range, representative of the focus on SME investing
- Direct Foreign Investments remain strong but there is a lack of large PE-friendly deals

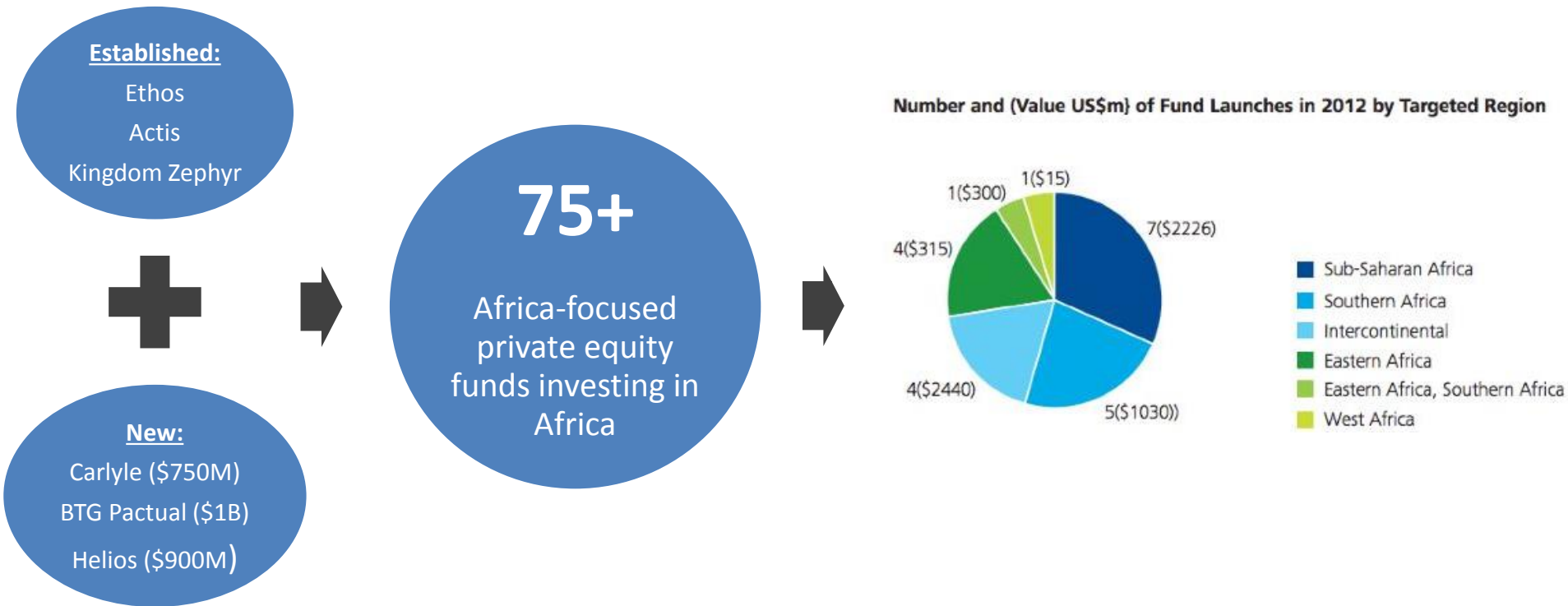
# Industry specific investments by private equity firms is the key to unlocking economic acceleration in Africa



Deal activity in Africa reflects a focus on financial services, manufacturing & industrials, and agriculture: three key industries integral to the development of emerging market countries.



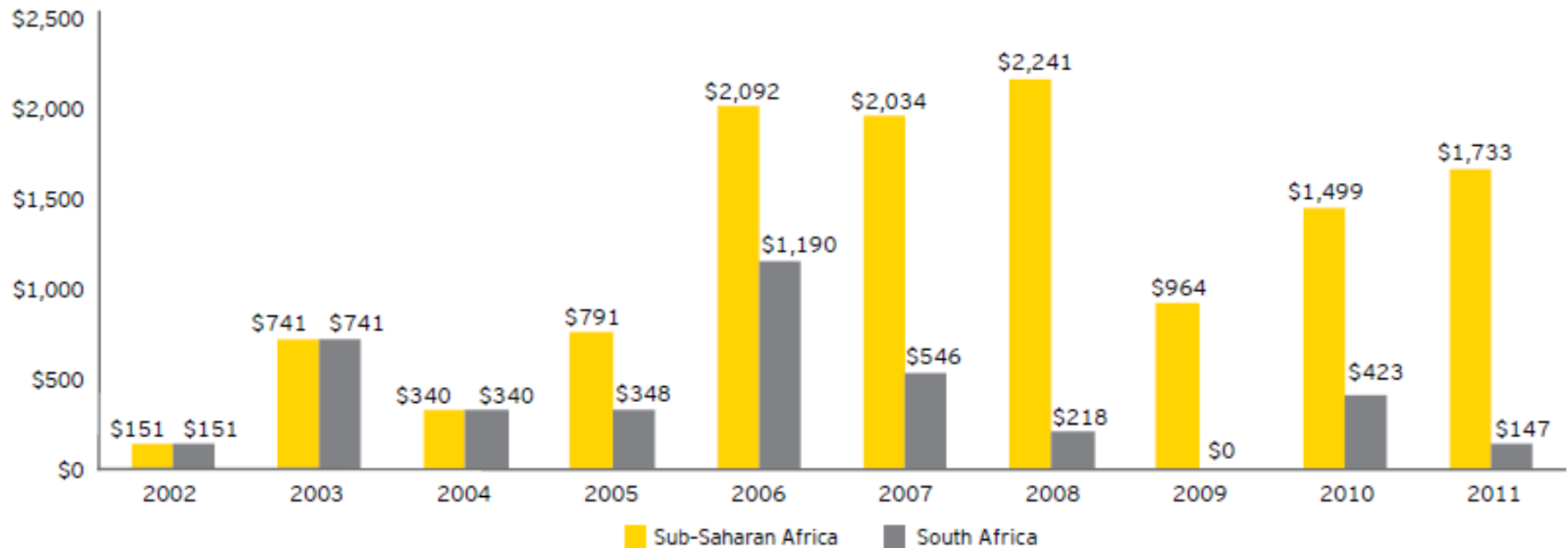
# A range of established and new PE firms have raised funds focused on investing in Africa



- 75+ PE firms launched Africa-specific funds to support PE activity in Africa
- New PE players such as Carlyle, BTG Pactual, and Helios have penetrated a continent dominated by established player the likes of Ethos, Actis, and Kingdom Zephyr
- Sub-Saharan, Southern, and Eastern Africa launched greater funds in 2012

# An increase of capital raised for Africa is targeting frontier markets outside of South Africa

Figure 3: Sub-Saharan fundraising has grown significantly as a proportion of total Africa commitments (US\$b)



Source: EMPEA industry Statistics, Q3 2011 release; 2011 figures to Q3 2011 and annualized

- In the last five years PE firms targeting opportunities in Africa raised \$9.3 billion
- For over decade capital was mostly directed to South Africa but now frontier markets outside of South Africa is gaining great attraction
- Currently South Africa makes up less than 10% of funds raised

# PE transactions in Africa focus on hands-on value creation beyond simple financial engineering and severe cost-cutting

## Value Creation

Assemble the right team



## Why? / How?

- Help portfolio company management by assembling dedicated internal portfolio teams to maximize the growth potential
- Hire talent and resources to unlock value in the portfolio
- Train executives within the portfolio company

Drive operational improvements



- Achieving operational improvements is the key source of value creation so get involved in the day-to-day decisions
- 75% of firms get involved by strengthening standard financial and operating performance reporting
- Chances of improving profit margins are greater if an industry expert is deployed to work with the portfolio company

Develop company vision and growth strategy



- Hire an industry expert to help portfolio company develop a long-term vision and consult on key areas of the business
- PE firm helps company to expand margins by increasing and revenue streams while applying strict processes to reduce cost

Provide a diverse network with strong relationships



- Companies need the vast network and relationships provided by PE firms in order to create synergies and growth opportunities
- Build scale by identifying M&A targets, helping with regulators, introducing new clients or suppliers, and identifying strategic buyers and exit opportunities

# Short-term investment in emerging markets returns 16% while investing in Africa returns double the public market rate

Average PE returns on a 5-year and 10 year horizon

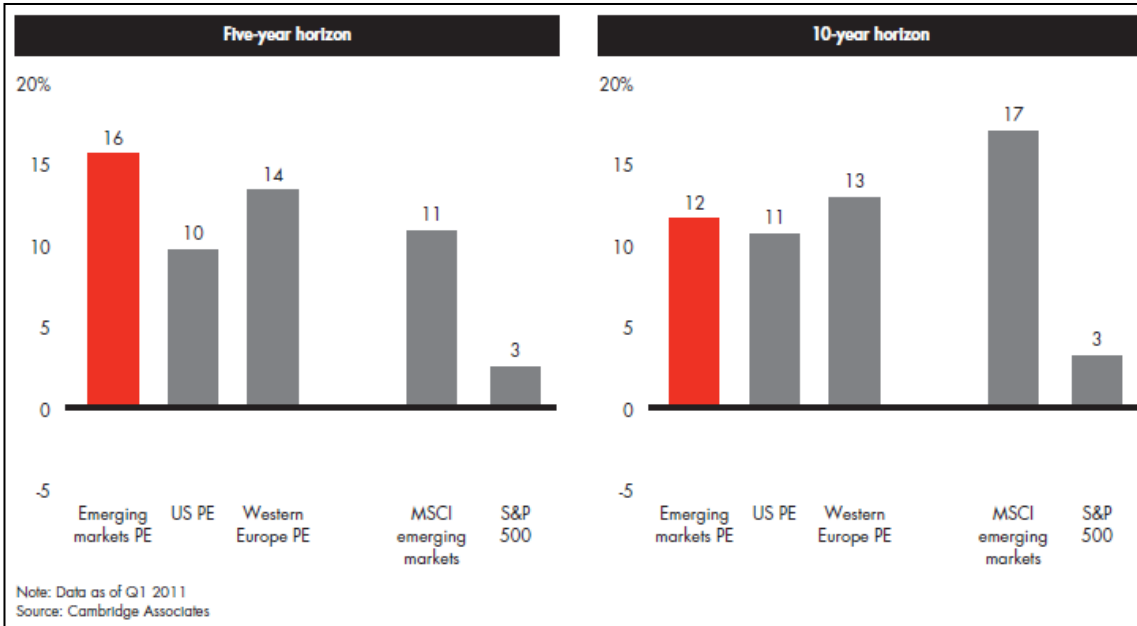
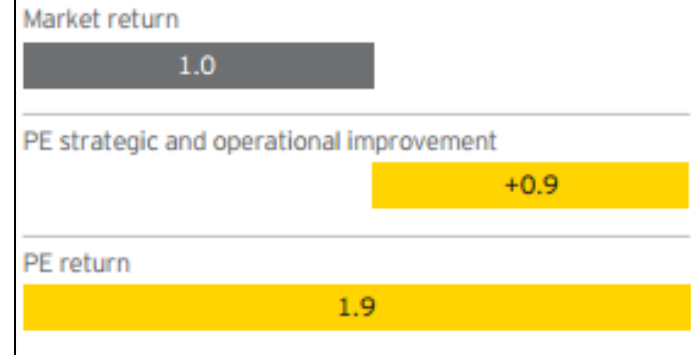


Figure 6. PE return relative to the market



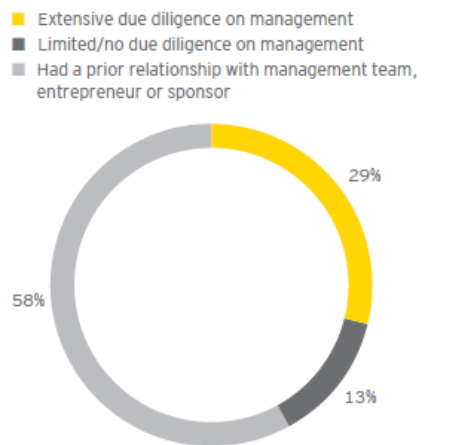
Note: Market return is based on returns to the JSE during the holding periods of exits in the study.

Source: How do private equity investors create value?: 2013 Africa Study, Ernst & Young and AVCA, 2013

- Stagnant returns in markets of US and Europe, have influenced PE firms to invest in emerging markets but it is unclear if returns are substantial there
- Short-term investments (5yr horizon) outperformed public stocks and developed markets however a long-term outlook (10yr horizon) showed equal performance
- Relative to Africa, PE in Africa has returned almost double to investors what they might have achieved on public markets due to PE's strategic and operational improvement
- The IFC reports its Africa portfolio has historically outperformed the entire emerging market portfolio between 2000 – 2010 at 21.7% return given 42 Sub-Saharan African funds

# Doubling returns stem from vetting management team, making governance changes, and giving access to their networks

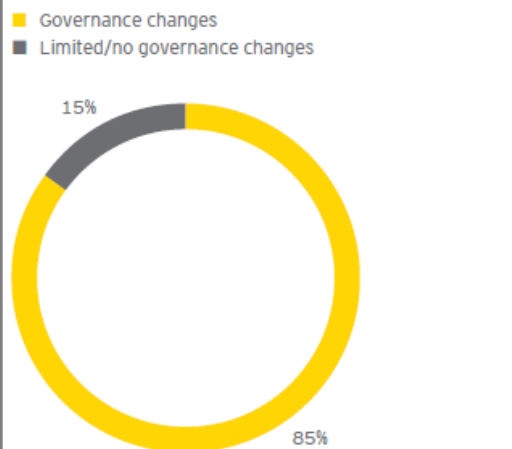
Figure 8. PE firms' knowledge of management teams prior to investing



	Relative returns
Had a prior relationship with management team, entrepreneur or sponsor	1
Limited/no due diligence on management	0.2
Extensive due diligence on management	2.5

Source: *How do private equity investors create value?: 2013 Africa Study*, Ernst & Young and AVCA, 2013

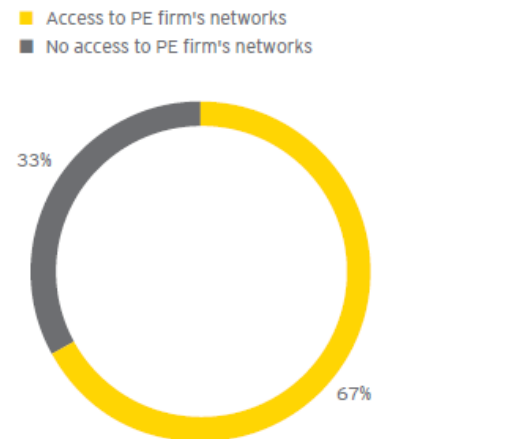
Figure 9. Governance changes in portfolio companies



	Relative returns
Limited/no governance changes	1
Governance changes	1.9

Source: *How do private equity investors create value?: 2013 Africa Study*, Ernst & Young and AVCA, 2013

Figure 10. PE firms providing portfolio companies with access to their networks



	Relative returns
No access to PE firm's networks	1
Access to PE firm's networks	2.4

Source: *How do private equity investors create value?: 2013 Africa Study*, Ernst & Young and AVCA, 2013

- Getting to know and backing the right management team is very vital for the success of returns in African deals so extensive management due diligence is important
- Improving the environmental, social, and governance policies of portfolio companies improves company performance and give strategic buyers the confidence to buy
- Providing access to networks more than generates double the returns

# Africa private equity not only source deals but also have a focus on a variety of promising exit opportunities

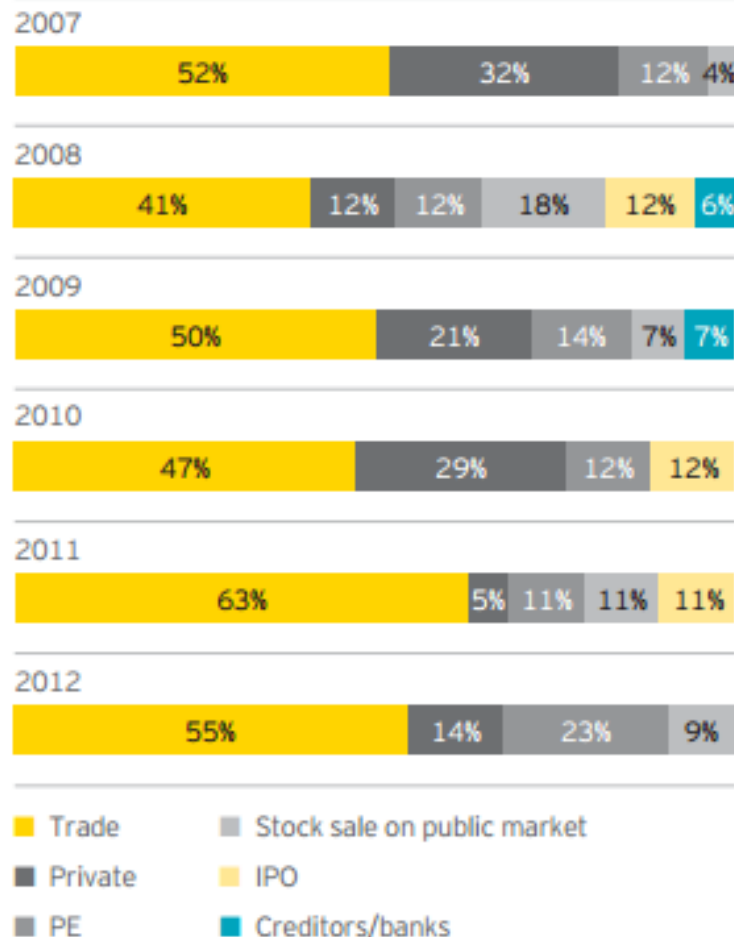
**Figure 1. Number of PE exits in Africa, 2007-12**



Source: *How do private equity investors create value?: 2013 Africa Study*, Ernst & Young and AVCA, 2013

- 118 exits by PE firms were recorded between 2007 – 2012, private sales are not included
- High number of exits in 2007 attests to the resilience of Africa during global financial crisis
- Sales to strategic buyers account for about half of all exits, strong involvement of regional and local buyers is evident of a strong pan-African market
- An increase of PE buyouts signifies a mature African market as larger PE funds are raised

**Figure 5. Exit route, by exit year and exit population**



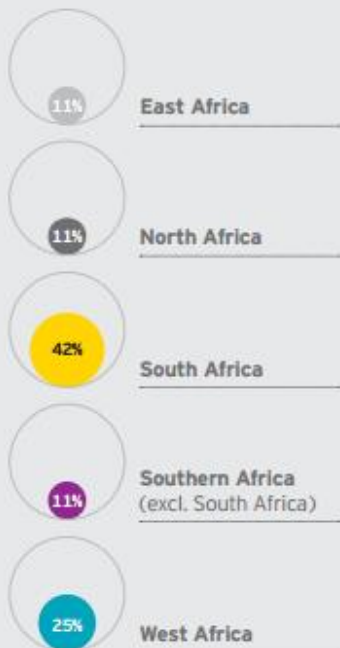
Source: *How do private equity investors create value?: 2013 Africa Study*, Ernst & Young and AVCA, 2013

# Exits show momentum across all regions and various sectors with financial services leading

Figure 2. Exits by region



"The larger markets of South Africa, Nigeria, Egypt, Ghana and Kenya accounted for a large share of exits."



Source: How do private equity investors create value?: 2013 Africa Study, Ernst & Young and AVCA, 2013

Figure 3. Financial services most active sector, driven by growth in consumer



Source: How do private equity investors create value?: 2013 Africa Study, Ernst & Young and AVCA, 2013

- 58% percent of exits were across Africa while 42% occurred in South Africa
- Large markets of South Africa, Nigeria, Egypt, Ghana, and Kenya accounted for 74% of exits
- Financial sector has the highest number of exits due to banking reforms in countries such as Ghana and Nigeria
- As disposable income increases, financial services are becoming an important part of the economic landscape prime for PE investors looking to penetrate the African market

# Success stories of private equity investments and exits have occurred throughout the years



TOP 10 BUYOUT DEALS IN CONTINENTAL AFRICA FROM 2008 TO PRESENT DAY			
ANNOUNCEMENT DATE	TARGET COMPANY	BIDDER COMPANY	DEAL VALUE (US\$M)
19-Feb-11	Royal Dutch Shell plc (Downstream Businesses In Africa) (80% Stake)	Vitol Holding BV; and Helios Investment Partners LLP	1,000
23-Jun-08	Vodacom SA (6.25% Stake)	Black Economic Empowerment; and Thebe Investment Corporation	982
12-Jul-11	Union Bank of Nigeria Plc (60% Stake)	African Capital Alliance	750
05-Aug-08	ACTOM (Pty) Ltd	Black Economic Empowerment; Actis LLP; and Old Mutual Investment Group SA Ltd	700
10-Mar-10	Foodcorp (Proprietary) Limited (77% Stake)	Capitau SA; and Bluebay Asset Management Plc	453
03-Oct-11	Tracker Network (Pty) Limited	Actis LLP; Mineworkers Investment Company (Pty) Ltd; and RMB Ventures Limited	434
24-Apr-08	Tourism Investment Corporation Limited	Union Square Properties 100 Limited; Old Mutual Life Assurance Company South Africa Limited; Industrial Development Corporation of South Africa Limited	261
08-Jul-09	Commercial International Bank (Egypt) SAE (9.33% Stake)	Actis LLP	244
06-Sep-08	EnviroServ Waste Management	Black Economic Empowerment; and Absa Capital Private Equity	238
25-Jan-08	Tsebo Outsourcing Group (Pty) Ltd	Lereko Investments Pty Ltd; and Absa Capital Private Equity; and Nozala Investments (Pty) Ltd	202

Source: mergermarket

The more successful PE deals occur, the more momentum is created for PE firms to invest in Africa



# Challenges and risks that exist for private equity firms interested in Africa are minimal and can be mitigated

Risk	Description	Mitigation	Risk Level
Shallow Talent Pool	<ul style="list-style-type: none"> <li>Lack of experienced fund managers for investors to invest in</li> <li>Companies prime to invest lack management talent</li> </ul>	<ul style="list-style-type: none"> <li>Increasing numbers of fund managers are establishing local team in Africa with and hiring Africans from the diaspora with proper education and training</li> <li>Fund managers can bring substantial value-add expertise to portfolio companies lacking talent</li> </ul>	
Political Risk / Corruption	<ul style="list-style-type: none"> <li>Political risk once overshadowed Africa in the wake of dictators and civil wars</li> <li>Companies can be affected due to transition of governments</li> </ul>	<ul style="list-style-type: none"> <li>Greater stability as democracies mature which creates a business friendly environment to the world</li> <li>Africa is shedding any perception of corruption, 67% of LP's view Africa as attractive for investment</li> <li>Do not invest in government-backed companies</li> </ul>	
Weak Exit Environments	<ul style="list-style-type: none"> <li>Exit opportunities is a hurdle to attracting capital</li> <li>IPOs are less frequent given liquidity in the public markets</li> </ul>	<ul style="list-style-type: none"> <li>Many successful exits have occurred through sales to strategic buyers that are consolidating</li> <li>Regional centers such as Lagos, Johannesburg, Nairobi are developing pockets of liquidity</li> </ul>	
Not enough scalable deals	<ul style="list-style-type: none"> <li>Lack of consolidation of businesses minimizes the number of big ticket deals</li> </ul>	<ul style="list-style-type: none"> <li>Invest in companies with the vision to scale up through acquisitions and position for sale</li> <li>The expansion of banking sector across nations is being adopted by other industries</li> </ul>	

# Conclusion: Private Equity in Africa is a world of opportunity

- Africa is the fastest growing investment regions in the world today
- Maturing markets and rising opportunities has attracted established investors as Africa-focused funds are growing demonstrating successful exit landscape
- Traditional barriers to entry such as poor developed financial markets, political instability, and economic fragmentation are being broken by political reform and economic growth
- Private equity manager in Africa continue expand their track record of success and post impressive returns compared to global markets

# APPENDIX

# Deals

Figure 6. Selected deals in Africa 2010 and 2011

Announced date	Company	Deal value (US\$m)	Country	Firm
3-Oct-11	Tracker Network Ltd.	434	South Africa	Actis Capital LLP, RMB Ventures Ltd.
19-Sep-11	Eaton Towers	150	Ghana	Capital International, Inc.
30-Aug-11	Universal Industries Corporation Ltd.	184	South Africa	Ethos Private Equity Ltd.
6-Jan-11	InterSwitch Ltd.	110	Nigeria	Helios Investment Partners LLP, Adlevo Capital Managers LLC
11-Sep-11	Rift Valley Railways	110	Kenya	Citadel Capital, African Agriculture Fund, IFC
26-Oct-11	IHS Nigeria plc	52	Nigeria	Emerging Capital Partners – ECP, Investec Africa, Frontier Private Equity Fund LP
12-Jan-10	Seven Energy Nigeria Ltd. (minority %)	48	Nigeria	Capital International Inc., Standard Chartered Private Equity
13-Jul-11	Denny Mushrooms Ltd.	38	South Africa	RMB Ventures
27-Jul-10	Mediterranean Smart Cards Co.	30	Egypt	Actis Capital LLP
14-Mar-11	Metago International Holdings	11	South Africa	3i Group plc
8-Mar-10	C & I Leasing plc	10	Nigeria	Aureos Capital Ltd.

Source: Dealogic, Thomson One, Bloomberg.com

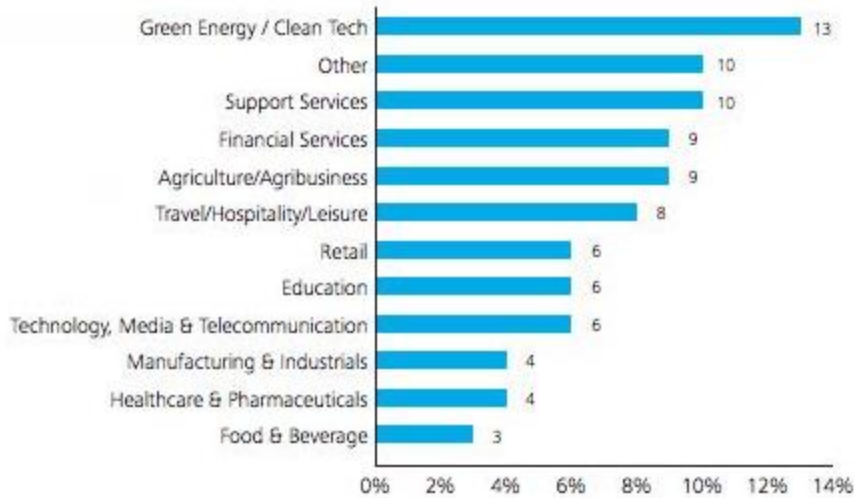
# New funds raised for investments in Africa

Status	Fund	Manager	Fund type	Closed or target size (US\$m)	Industry focus
Closed 30-Sep-10	African Global Capital II	Och-Ziff Capital Management	Balanced	400	Energy, mining, natural resources
Closed 13-Oct-11	African Infrastructure Investment Fund II	African Infrastructure Investment Managers	Infrastructure	500	Infrastructure
Closed 26-Jul-10	ECP Africa Fund III	Emerging Capital Partners	Growth	613	Telecoms, consumer products, financial services, oil & gas, mining, insurance
Closed 13-Jun-11	Helios Investors II	Helios Investment Partners	Buyout	900	Telecoms, health care, consumer products, financial services, agriculture, infrastructure
Closed 27-May-11	Capital Alliance Private Equity III	African Capital Alliance	Growth	450	Diversified
Closed 11-Feb-10	Pan African Investment Partners II	Kingdom Zephyr	Growth	492	Telecoms, consumer products, financial services, energy, insurance, property
Raising	Carlyle Africa Fund	Carlyle Group	Buyout	750	Consumer products, financial services, agriculture, energy, infrastructure
Raising	Ethos Private Equity Fund VI	Ethos Private Equity	Buyout	750	Technology, consumer products, retail, manufacturing, financial services, diversified, infrastructure, telecom media
Raising	8 Miles Fund I	8 Miles	Buyout	450	Diversified
Raising	EVI Capital Buyout Fund	EVI Capital	Buyout	400	Diversified

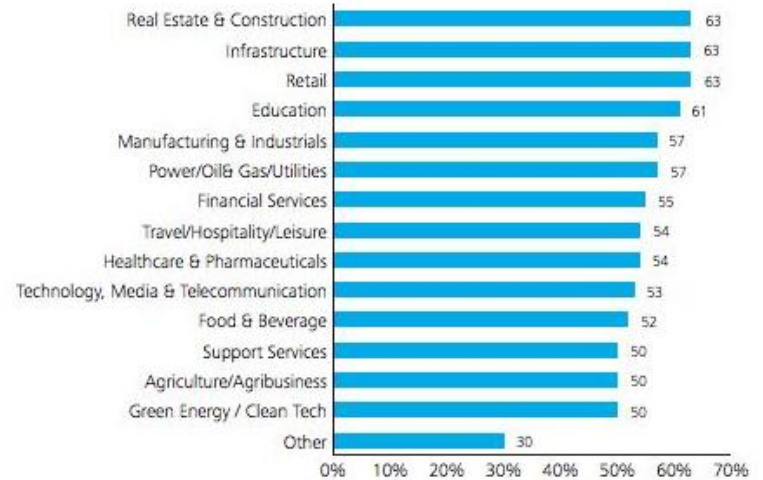
Source: EMPEA Industry Statistics, Q3 2011 release

# Sectors with opportunities for PE investments across Africa

## Central Africa

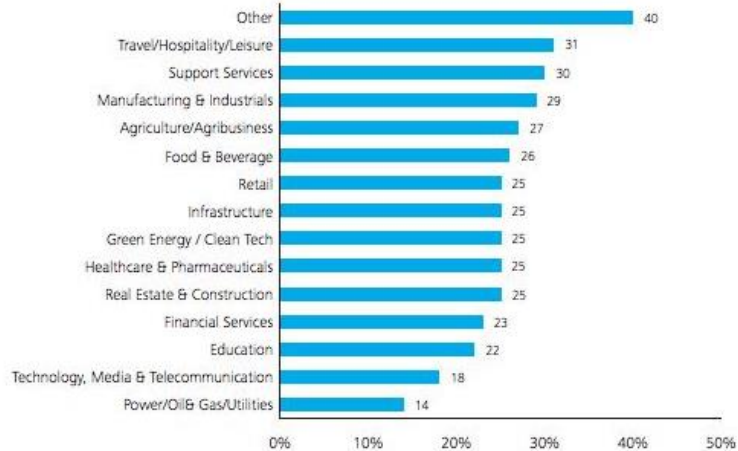


## Eastern Africa

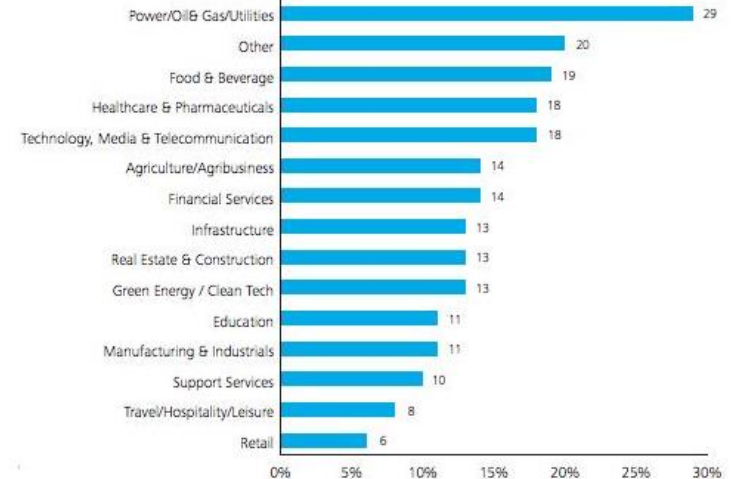


## Sectors to focus on in the next 12 to 18 months

### Southern Africa



### West Africa



# Resources

## **Publications:**

- Private Equity Roundup – Africa, Ernst & Young, Feb. 2012
- Harvesting growth: How do private equity investors create value, Ernst & Young, 2013
- Global Private Equity Report 2012, Bain & Company
- The Africa Handbook 2012, Private Equity International, Sept 2012
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- Private Equity Climate in Africa: Embracing The Lion, Avanz Capital, 2012

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- <http://africanbusinessmagazine.com/african-banker/investment/private-equity-the-african-adventure>
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