February 2013

Private equity roundup – Africa

Private equity roundup – Africa is part of a series from Ernst & Young focusing on private equity activity in emerging markets.

In this issue:

PE firms are increasingly diversifying their geographical focus outside the more advanced economy of South Africa to countries such as Nigeria, Ghana, Kenya and Ethiopia.

Remarkable resilience across the African continent to drive geographic expansion in PE investment

Despite global economic woes that have persisted for nearly five years, Africa continues to flourish. In recent years, economic growth rates have been well in excess of those in developed economies and above those in many emerging markets.

Growing urbanization, an increasing formal labor force, declining dependency ratios and rising middle-class incomes are contributing to favorable demographic trends that are helping to drive growth. Increasing political stability coupled with improvements in legal, regulatory and business environments are giving private equity (PE) firms the confidence to invest in the region. A relatively undeveloped banking sector five years ago also meant that much of Africa avoided the excesses of the credit boom and is therefore strongly positioned for growth.

Although PE fund-raising in Africa in 2012 has been subdued, many firms are currently in the market raising Africa-focused funds to capitalize on growth opportunities in the region, and as such, fund-raising totals should improve in the coming years. There is a growing trend toward funds that target specific sectors, largely to capitalize on opportunities in sectors benefiting from consumer growth as well as much-needed infrastructure investment (i.e., infrastructure, real estate and agri funds).

PE firms are increasingly diversifying their geographical focus outside the more advanced economy of South Africa to countries such as Nigeria, Ghana, Kenya and Ethiopia. The large number of small and medium-sized enterprises (SMEs) needing growth funding, coupled with strong economic fundamentals and a lack of alternative funding sources, should continue to drive the growth of PE investment across Africa closer toward the levels seen in other emerging markets.

While a negative perception about Africa still remains, over the coming years, macroeconomic stability and microeconomic reforms should continue to positively transform Africa's image in the global landscape.

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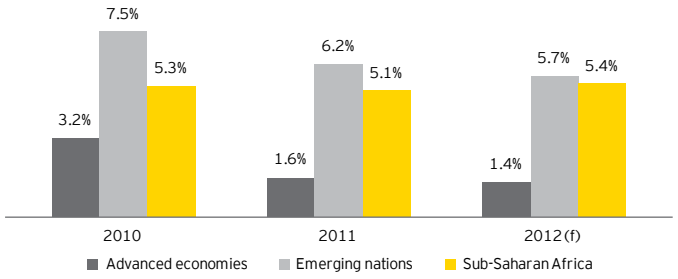
Resilience to global economic crisis

Africa has shown remarkable resilience in the face of the global economic uncertainties that have persisted in recent years. Many African countries have bucked the trend and posted higher-than-average economic growth rates in spite of the continuing crisis in the Eurozone, slowing growth in China, concerns over the "fiscal cliff" in the United States and slower-than-expected growth in some of the other emerging markets.

Economic output in Africa has increased threefold in 10 years to US$2t, and 6 African countries have been among the 10 fastest-growing economies in the world over the last decade. Overall, Sub-Saharan Africa has grown by around 5% per annum from 2010 to 2012. South Africa, as the region's largest economy, has grown by just 3% to 4% per annum over the same period, meaning that many of the other countries in the region have been posting growth rates in excess of 6% per annum in order to bring the average growth up to 5.3%.

Figure 1. Economic growth rates in Sub-Saharan Africa compared with other regions

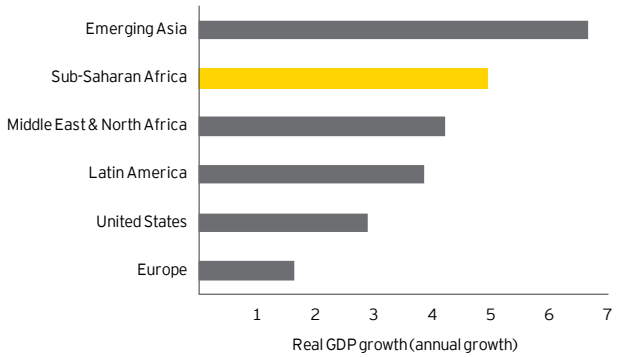


Source: International Monetary Fund

Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria are expected to be among the 10 fastest-growing countries over the next 5 years. China, India and Vietnam make up the remainder of the list.

7 African countries expected to be among top 10 fastest-growing countries in next 5 years

Figure 2. Economic growth prospects: 2011–2020 (annual growth, %)



Source: Oxford Economics

Improvements in governance have contributed to Africa's resilience to the global downturn

African governments continue to work hard to create a favorable environment in which companies and individuals can invest and do business.

According to the Ibrahim Index of African Governance, which provides an annual assessment of governance performance, 70% of African countries have improved in overall governance quality since 2006. Mauritius, Cape Verde and Botswana top the rankings table, while countries like Angola, Liberia and Sierra Leone are identified as having made significant improvements over the period.

Figure 3. 2012 Ibrahim Index of African Governance country rankings – top 10

Rank		Score/100
1	Mauritius	82.8
2	Cape Verde	78.4
3	Botswana	77.2
4	Seychelles	73.4
5	South Africa	70.7
6	Namibia	69.8
7	Ghana	66.3
8	Tunisia	62.7
9	Lesotho	61.0
10	Tanzania	58.8

Source: Ibrahim Index of African Governance

70% of African countries have improved in overall governance quality since 2006.

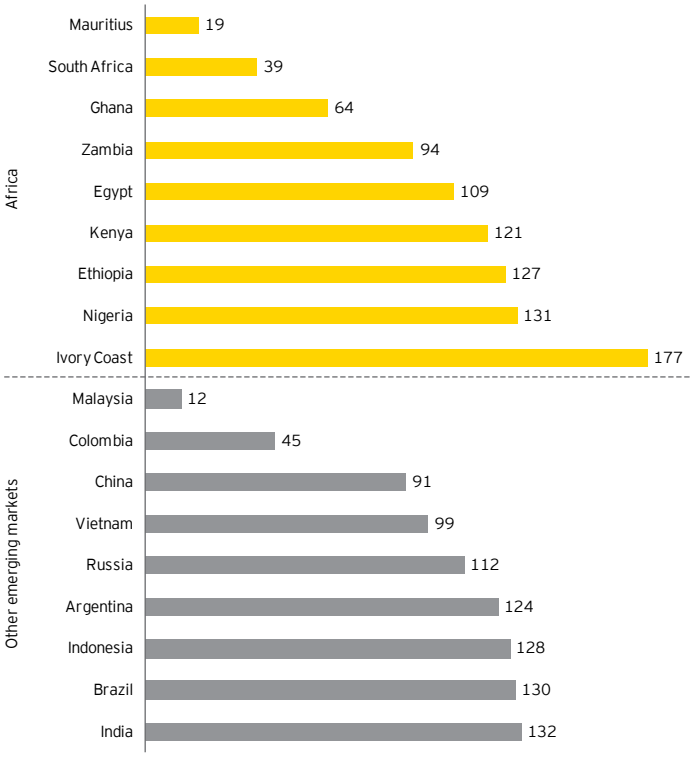
Further evidence of the improvements made in governance in Africa comes from Transparency International's Corruption Perceptions Index. Africa now has 14 countries ranking higher than India and 35 ranking higher than Russia. Although it still lags behind many developed nations, and there is still work to be done, it signals the success of African governments and industry bodies in improving governance.

Governments continue to strengthen the business environment

Regulatory reforms in many African countries have helped strengthen the business environment. Recent research from the World Bank shows 14 African countries ranking ahead of Russia, 16 ahead of Brazil and 17 ahead of India in terms of "ease of doing business."

More than three-quarters (78%) of the Sub-Saharan economies undertook vital economic reforms in 2012 compared with just 59% in 2011, with Morocco, Cape Verde, Sao Tome and Principe, Burundi, and Sierra Leone being identified as having undertaken the most reforms.

Figure 4. "Ease of doing business" ranking — selected African countries and other emerging markets (highest ranking = easiest place to do business)



Source: World Bank

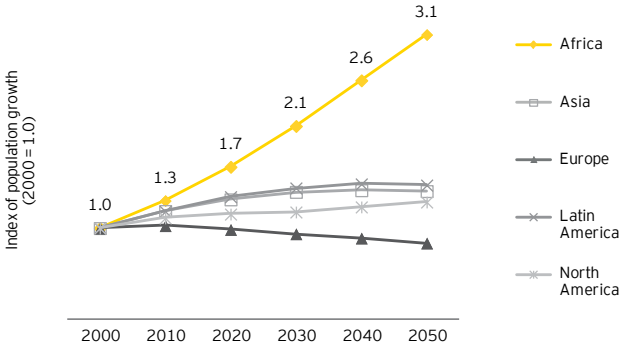
Demographic changes are also helping to transform Africa from a commodities-led growth story to a consumer-led one.

Demographic trends help drive economic growth

Growing urbanization, an increasing formal labor force and declining dependency ratios are contributing to demographic shifts that are helping African countries to continue to grow against a backdrop of low global economic growth. Demographic changes are also helping to transform Africa from a commodities-led growth story to a consumer-led one.

- **Urbanization:** According to the UN Population Division, Africa's urban population almost doubled to 401 million between 1990 and 2010, and it is expected to reach 1.3 billion by 2050.
- **Formal labor force:** By 2010, Africa's employable population (15–64 years old) stood at 574.5 million, and this is expected to more than double by 2050 to 1.4 billion. Improvements in the education system and health care services are further expected to boost the employable population.
- **Dependency ratio:** This has declined from 91% in 1990 to 78% in 2010 and is expected to drop to 59% by 2050. Factors such as better education and reduced average family size are contributing to this trend.

Figure 5. Index for population aged 15–64 (2000–2050)



Source: UN Population Division

Figure 6. Africa today and tomorrow

	Africa today	Africa tomorrow
Population	1.05b (2011)	2.3b (2050)
Dependency ratio	78% (2010)	59% (2050)
GDP	US$1.9t (2011)	US$2.5t (2020)
Household final consumption expenditure	US$716b (2011)	US$1.4t* (2020)
Foreign direct investment (FDI)	US$42.7b (2011)	US$150b (2015)
Urbanization	39.2% (2010)	57.7% (2050)

Source: Population Reference Bureau, United Nations, Ernst & Young research, UNCTAD

*The household final consumption expenditure estimate is the consumer spending estimate in 2020.

Increasing foreign direct investment flows are reinforcing Africa's growth

The success of the broad range of reforms that have been implemented across Africa, coupled with favorable demographics and sustained economic growth and political stability, is attracting investor interest from around the globe. Governments and businesses from developed economies and other emerging economies increasingly consider Africa as an important region in their overall growth strategy.

The United Kingdom and Nigeria reached an agreement to double international trade between the two countries by 2014. The US Government recently released a policy guide on its strategy in Sub-Saharan Africa that aims to increase US trade and investment with African economies.

US companies are also focusing more on Africa. US-based General Electric has announced plans to invest over US$100m in generation of two wind power projects in Kenya starting next year, Walmart acquired a controlling stake in Massmart in a US$2.2b transaction in South Africa in 2010, and Burger King has entered into a joint venture with South African gaming and leisure group Grand Parade Investments to form Burger King South Africa. These are only some of the recent examples.

Foreign direct investment (FDI) from other emerging markets is also significant. Chinese companies have dramatically increased their investment across most of Africa over the last decade. Corporations from India are also following suit. For example, India-based entrepreneur Rahul Dhir teamed up with Warburg Pincus to set up an international oil and gas exploration company focused on Sub-Saharan Africa. An Indian drug maker, Cipla, made a US$220m offer to acquire South Africa's Cipla Medpro in November 2012. This follows other high-profile investments by Indian groups such as Bharti Airtel, Essar and others.

Figure 7. Selected large inbound investments in Africa by strategics from developed and other emerging markets, 2010–2012

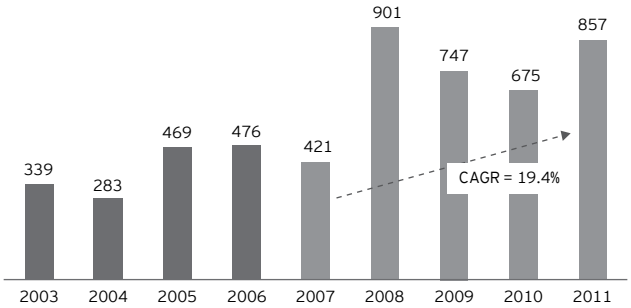
Year	Company	Country	Acquirer	Acquirer HQ	Deal value (US$m)
2010	Zain Africa	Various	Bharti Airtel Ltd.	India	10,700
2010	Dimension Data Holdings PLC	South Africa	NTT	Japan	3,119
2011	Tullow Oil-Exploration Areas	Uganda	CNOOC Ltd. and Total SA	China	2,900
2010	Massmart Holdings Ltd.	Various	Wal-Mart Stores Inc.	United States	2,154
2011	Defy Appliances (Pty) Ltd.	South Africa	Arcelik AS	Turkey	331
2011	Alexander Forbes Risk Services	South Africa	Marsh Inc.	United States	226
2012	Cipla Medpro South Africa Ltd.	South Africa	Cipla Ltd.	India	218

Source: Thomson Reuters, mergermarket

Includes announced and completed deals

Investors' growing confidence is also demonstrated by greater FDI flows into Africa. The number of FDI projects in Africa has grown at a compound rate of close to 20% since 2007 – in 2010 and 2011 alone it grew by 27% – and capital investments in the continent are forecast to reach US$150b by 2015. Intra-African FDI is also on the rise and has grown at a compound rate of 42% since 2007.

Figure 8. Project investment from developed and emerging markets



Source: Ernst & Young, 2012 Africa Attractiveness Survey

Ernst & Young's 2012 Africa Attractiveness Survey established that the increase in FDI in the region has resulted in creation of more than 1.6 million jobs in the last eight years and overall infrastructure development through skill, technology and knowledge transfer by multinationals. FDI is flowing into a diverse range of sectors, although manufacturing and infrastructure-related activity accounts for a significant share.

The survey also showed that a majority of investors believe that Africa has become a more attractive place to invest, although a perception gap remains within the investor and business community, usually among those that have not yet invested in the region.

Many PE firms are viewing Africa in a positive light, encouraged by the resilience of economic growth, increasing political stability, and improvements in legal, regulatory and business environments. Both global and Africa-based PE investors are increasingly active on the continent, raising Africa-focused funds and targeting a range of investments that capitalize on Africa's growth opportunity.

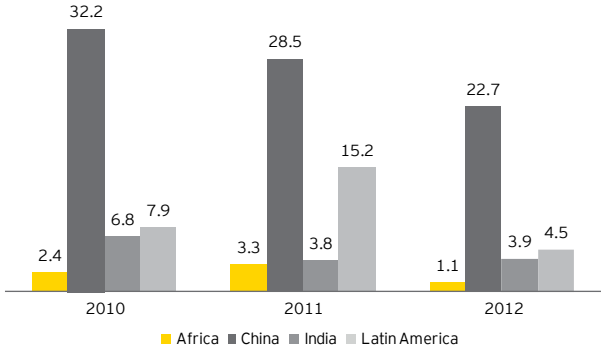
1.6 million **jobs created in Africa over last eight years from increase in FDI**

Fund-raising

PE fund-raising for Africa peaked in 2007, when firms targeting opportunities in the continent raised a total of US$4.7b. Activity declined substantially in 2008 and 2009, and there was a rebound in 2010 and 2011 with fund-raising rising to US$3.3b. Fund-raising once again faced challenging conditions in 2012 across the globe, and this has been reflected in lower funds raised for Africa. Africa-focused PE funds raised only US$1.1b in 2012, less than half of what was raised in 2011. Fund-raising in 2011 was also greatly supported by Helios' US$900m fund, whereas no funds greater than US$300m have been closed in 2012. China and Latin America also experienced a decline in fund-raising in 2012.

Despite a difficult 2012, the long-term outlook for fund-raising for the region remains strong. Although funds are taking longer to raise across the globe, there are a significant number of funds currently on the road that are likely to close in 2013. Limited partners (LPs) are generally optimistic about investing in Africa, as evidenced by the 2012 EMPEA Global LP Survey, with 41% planning to expand or begin investment in Sub-Saharan Africa over the next two years.

Figure 9. Fund-raising in Africa and other emerging markets, US$b



Source: Preqin, Venture Intelligence and Factiva

Despite a difficult 2012, the long-term outlook for fund-raising for the region remains strong.

Figure 10. Selection of PE funds raised for Africa in 2012

Close date	Name of the fund	Fund manager	Fund size (US$m)
Jan 13	Ethos Private Equity Fund VI	Ethos Private Equity	800*
Oct 12	Actis Africa Real Estate Fund 2	Actis	278
Aug 12	RMB Westport Real Estate Development Fund	RMB Westport	250
Mar 12	Vantage Capital Mezzanine II	Vantage Risk Capital	232
Feb 12	New Africa Mining Fund II	Decorum Capital Partners	120
Jan 12	Old Mutual Private Equity Secondary Fund	Old Mutual Private Equity	83

Source: Preqin
*Announced 23 January 2013

Figure 11. Selection of PE funds currently fund-raising for Africa

Vintage	Name of the fund	Fund manager	Target fund size (US$m)	Latest interim close (US$m)	Fund type
2012	Pan African Infrastructure Development Fund II	Harith	1,200	N/A	Infrastructure
2012	BTG Pactual Africa Fund	BTG Pactual	1,000		Infrastructure
2012	African Development Partners II	Development Partners International	500		Growth
2012	Frontier Resource Group I	Frontier Resource Group	500	100	Natural resources
2012	Ivora Africa Property Fund	Ivora Capital	500	N/A	Real estate
2012	Convergence Partners Communications Infrastructure Fund	Convergence Partners	500	N/A	Infrastructure
2011	Vital Capital Fund I	Vital Capital Investments	500	250	Growth
2012	Carlyle Sub-Saharan Africa Fund	The Carlyle Group	500	N/A	Buyout

Source: Preqin
Based on funds that have been announced and not yet reached a final close

Africa's PE market is fast evolving as more PE firms focus on the region

The African PE landscape is changing. Ten years ago, it was dominated by a handful of players from South Africa, and pan-African PE firms largely managed out of the US and UK. Five years ago, the number of PE firms had increased significantly, as had the number of new funds raised. Between 2006 and 2012, 81 PE funds that were solely or predominantly focused on Africa closed, and through the end of 2012, an additional 45 Africa-focused funds were on the road targeting approximately US$12b.

According to Preqin, many new players entered the market in the last four to seven years. In 2004, 6 first-time fund managers held a close on their fund, and by 2008 the number had risen to 13. In 2012, 14 first-time fund managers had seen their funds closed. In October 2010, 52% of funds on the market were raising their first fund, and 21% were raising their second fund, demonstrating confidence in African PE against a backdrop of global economic uncertainty.

A number of global PE firms are gearing up to invest in Africa. The Carlyle Group has set up offices in South Africa and Nigeria and is fund-raising for a US$500m Sub-Saharan Africa Fund. In its first investment in South Africa, the group recently announced that it put US$210m into Export Trading Group with two other investors. A number of other global PE firms have shown increasing interest in the region, and other emerging markets-based players are also actively targeting the continent. Brazil-based BTG Pactual's announcement of an Africa-focused PE fund with a US$1b target is among one of the largest funds aimed at the region since the global economic crisis began.

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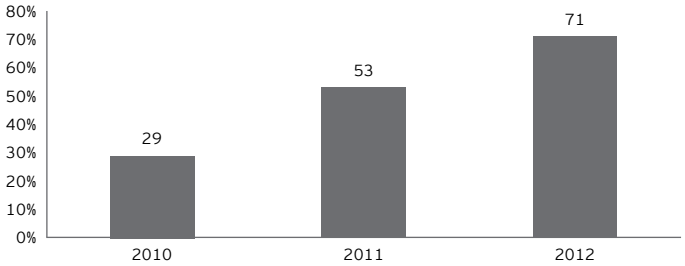
Figure 13. Share of sector-specific funds to total funds closed for Africa (by number of funds)



Source: Preqin

Sector-specific funds gain traction

Generalist funds have dominated African fund-raising so far, but the current trend is increasingly toward sector-specific funds. PE houses are increasingly looking at opportunities in certain sectors such as agriculture, infrastructure, real estate, natural resources, health care and consumer products. This is reflected in the increasing share of sector-specific funds to the total funds raised. Between 2010 and 2012, sector-specific funds have seen a consistent increase in the share of total fund-raising year-over-year while the share of generalist funds has declined.

Figure 12. Sector-specific funds currently fund-raising for Africa

Fund name	Sector	Target fund size (US$m)
Pan African Infrastructure Development Fund II (Harith)	Infrastructure, telecoms, transportation, environmental services, energy, renewable energy	1,200
BTG Pactual Africa Fund	Energy, infrastructure	1,000
Frontier Resource Group I	Agriculture, energy, infrastructure, natural resources	500
Ivora Africa Property Fund	Property (real estate)	500
Convergence Partners Communications Infrastructure Fund	Infrastructure	500
Central Africa Agriculture Fund (SilverStreet Capital)	Agriculture	450
Visible Earth Partners' African Agriculture Fund	Agribusiness	400
African Biofuel and Renewable Energy Fund (Duet Private Equity)	Energy	350

Source: Preqin

Transactions

Although PE investment activity in Africa lags behind other emerging markets like India, China and Brazil, the region is becoming increasingly attractive to the global investor community because of resilient and growing economies, favorable demographics, increasing political stability, and an improved business environment. Furthermore, with increasing confidence in African markets, PE firms are diversifying their geographical focus outside the more advanced economy of South Africa to other countries in Africa such as Nigeria, Ghana, Kenya and Ethiopia.

According to the Emerging Markets Private Equity Association and ThomsonOne, the value of PE investment grew from a low of US$1.6b in 2010 to US$2.7b in 2011 and fell to US$1.2b in 2012, in line with the fall in global activity. There should be an upward trend in investment in the coming years.

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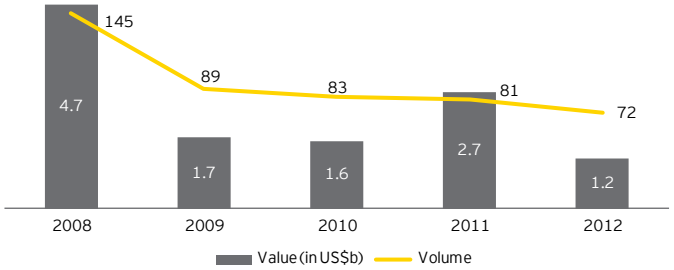
Notable deals in 2012 include a US$250m investment in Saham Finances, an insurance holding company, by an investor group led by Abraaj Capital, and a US$210m investment in Export Trading Group by Standard Chartered Private Equity, The Carlyle Group and Pembani Remgro.

Figure 14. Annual PE investments in Africa (US$b)



Source: EMPEA, Thomson Reuters, Ernst & Young research

2012 includes announced deals

Figure 15. Selection of PE investments in Africa in 2012

Date	Target Company	Value (US$m)	Region	Sector	Investor
Nov 12	Export Trading Group	284	Tanzania	Food and agriculture	The Carlyle Group, Standard Chartered Private Equity and Pembani Remgro*
Mar 12	Saham Finances Co.	250	Morocco	Insurance	International Finance Corporation and Abraaj Capital Ltd.**
Jan 12	NewAge (African Global Energy) Limited	125	Sub-Saharan Africa	Oil and gas	Kerogen Capital
May 12	Dashen Brewery PLC	90	Ethiopia	Food and agriculture	Deutsche Investitions, Duet Capital
Jan 12	Kevro (Pty) Ltd.	70	South Africa	Media and entertainment	Ethos Private Equity
Sep 12	Eland Oil and Gas	62	West Africa	Oil and gas	Helios Investment Partners, Solstice International Investments, Artemis Investment Management
May 12	CAL Bank	39	Ghana	Banking and capital markets	DPI and other investors
May 12	Golden Lay	24	Zambia	Agriculture	Phatisa
Jul 12	Waco International, Ltd.	NA	South Africa	Diversified industrial products	Ethos Private Equity, RMB Ventures

Source: Thomson Reuters, EMPEA, Private Equity Africa

*Standard Chartered Private Equity invested US$74m on 17 January 2012, and Carlyle, Standard Chartered Private Equity and Pembani Remgro invested US$210m on 15 November 2012

**Abraaj invested US$125m on 7 March 2012 and IFC invested US$125m on 12 March 2012

PE penetration remains low

Although PE has yet to achieve significant penetration into the Sub-Saharan region relative to developed economies and other emerging markets, individual countries such as South Africa and Nigeria are coming closer to other emerging-market penetration levels. As a percentage of GDP, PE now represents 0.12% in South Africa compared with 0.10% in Brazil, 0.14% in China, 0.33% in India, 0.08% in Russia, 0.75% in UK and 0.98% in the US, according to EMPEA and Ernst & Young research. Countries such as Ghana, Kenya, Ethiopia, Uganda, Tanzania, Zambia and Angola have fairly sizable economies that are less penetrated by PE and are therefore becoming increasingly attractive.

Deal sizes are relatively small but edging upward

Smaller investments characterize the African PE landscape, especially outside South Africa. The low average ticket size can be partly explained by the nascent stage of the African PE industry. PE firms willing to invest in the region can benefit from first-mover advantages by paying lower entry multiples than in other emerging markets.

GPs diversify geographic focus

South Africa has traditionally received much of PE's investment in Africa, although GPs are beginning to diversify their geographic focus. Countries such as Nigeria, Kenya, Ghana, Ethiopia and Morocco are increasingly a focus for GPs. As they continue to grow faster than South Africa, these countries will attract an increasing share of PE investment.

In 2011, Nigeria's PE investment total exceeded that of South Africa largely because of a US$750m investment by an Africa Capital Alliance-led consortium in Union Bank of Nigeria.

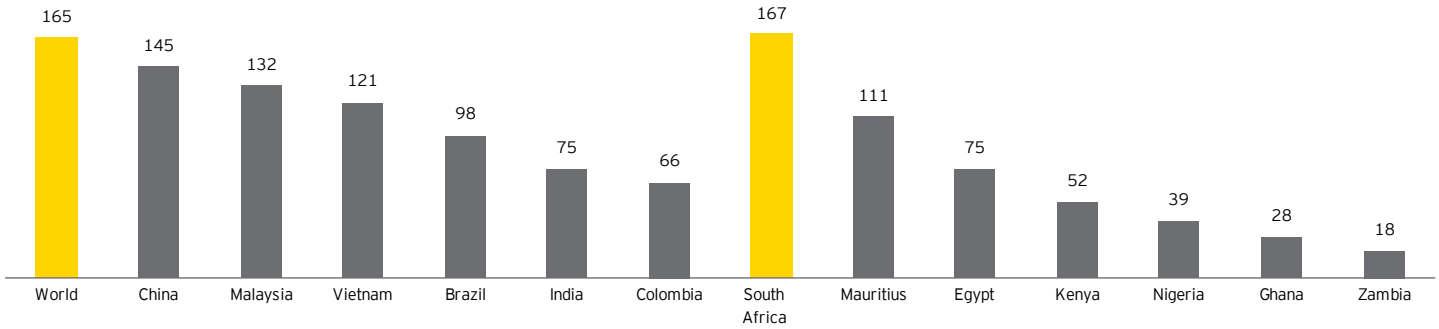
Large number of SMEs, coupled with undeveloped financial markets, should also help drive growth of PE

Although Africa has a large number of private companies, many of which require growth capital funding, the continent is significantly underpenetrated in terms of bank credit. Although economies such as South Africa and Egypt have more developed financial markets where credit is readily available, countries such as Kenya, Nigeria and Ghana still lag behind the emerging markets of China, India and Vietnam in terms of domestic credit provided by banking sector as a share of GDP. Low ratios in a fast-growth GDP environment generally result in those ratios rising quite quickly. Angola, for example, has seen the bank-credit-to-private-sector ratio rise from about 0.15 to 0.30 in the space of four years, demonstrating the huge growth potential for banking and capital markets as a PE investment focus.

Furthermore, funding from other sources is also limited due to underdeveloped stock and bond markets in most of the African nations. With the exception of South Africa's Johannesburg Stock Exchange (JSE), and to a lesser extent the stock markets in Nigeria, Egypt and Morocco, the continent's stock exchanges are small and fairly illiquid. Although the JSE is the only exchange in Africa to fall within the world's 20 largest stock markets, fewer than 400 companies are listed on the JSE, while an estimated 400,000 companies in South Africa remain privately held.

The limited availability of capital from banks and public markets in most African countries means that private companies find it challenging to obtain the necessary capital to grow. Although access to capital has improved over the last few years, there are significant capital needs that PE can provide to support the growth of SMEs. PE investors can therefore act as key enablers, bridging the funding gap that is crucial for a growing private sector and broad-based economic growth across the continent.

Figure 16. Domestic credit provided by banking sector (% of GDP), 2011



Source: World Bank data

PE firms invest in the growth of the African consumer

Consumer products

A large proportion of Africa's future growth is expected to come from its consumers. Total consumer spending in Africa is estimated to increase from US$860b in 2008 to US$1.4t by 2020. Global consumer products companies such as Coca-Cola, Nestle SA and Unilever have been operating in the region for decades, while others such as Walmart are relatively new entrants. There were 47 deals between 2008 and 2012 in this sector, although small deal sizes means that the aggregate deal value is only US$784m.

Technology, telecom and related infrastructure

According to the African Development Bank Group, access to fixed line and mobile phone subscriptions in Sub-Saharan Africa has leapt from 86 per 1,000 people in 2005 to 415 in 2011, with 735 million mobile phone subscribers expected by the end of 2012. Internet penetration has also increased from 19 people per 1,000 to 99. Liberalization of the sector in countries such as Uganda, Tanzania, Nigeria and Kenya has contributed to this growth.

PE firms have invested in towers businesses such as Helios Towers in 2009, Eaton Towers in 2011 and IHS Nigeria in 2011. In 2012, Emerging Capital Partners' portfolio company IHS Nigeria acquired MTN Towers in Cote d'Ivoire and Cameroon. Companies providing mobile communications and data connectivity services have also received PE interest historically, although PE investment in mobile network operators is unlikely going forward. Regionally, Kenya accounts for a large proportion of deals in this sector, partly because of its Government's commitment to boost the sector, with Kenyan companies such as Essar Telecom and Cellulant successfully raising PE investment in the past.

PE banks on African banking

Government reforms in the financial services sector, coupled with the growth of the middle class, have increased the attractiveness of the sector.

For example, in 2005, Central Bank of Nigeria undertook a massive consolidation exercise under which the number of commercial banks in Nigeria was reduced from 89 to 25. This significantly unlocked the sector's potential by bringing in cost economies to larger banks, eliminating small and inefficient ones in the process and improving the overall attractiveness of the sector. Union Bank of Nigeria, Oceanic Bank International, Diamond Bank PLC and First Bank of Nigeria PLC are some of the prominent Nigeria-based financial institutions that have received PE investments.

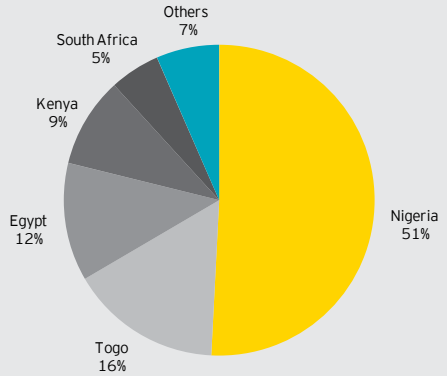
With reforms across Africa and rising incomes, banking assets in 16 key African countries are forecast to expand by 178% to US$980b by 2020, with deposits forecast to grow by 188% to US$766b.

Equity Bank, headed by James Mwangi, is one of the fastest-growing banks in East Africa and one of PE's success stories. Helios invested US$178.7m in 2007 in the Nairobi Stock Exchange-listed bank. The bank's more than 7 million accounts now represent over half of all bank accounts in Kenya, and the company has regional operations in Uganda, South Sudan, Rwanda and Tanzania.

Attracted by the significant investment potential of this sector, PE firms have committed nearly US$2b to 57 deals in the financial services sector between 2008 and 2012 – the largest amount of any sector. In the largest deal, an Africa Capital Alliance-led consortium invested US$750m in Union Bank of Nigeria in December 2011. Regional analysis of PE investments indicates that PE investments have not been spread uniformly across the continent. Nigeria, with 13 PE deals worth US$1b, has dominated PE deals in this sector.

In addition to large commercial banks, PE firms have also invested in several micro-finance companies and small lending institutions. Nigeria-based AB Microfinance Bank and Blue Intercontinental Microfinance Bank, Kenya's Juhudi Kilimo Company and Benin-based Finadev are some examples.

Figure 17. PE investment in the African banking sector (2008–2012), US$b



Source: Thomson Reuters, EMPEA

Exits

Exit activity in Africa has been relatively flat between 2010 and 2012, averaging around 15 exits per year over the period.

The most common exit route for PE firms from deals in Africa is via sale to strategic buyers, usually to local or regional buyers. Multinational corporations, on the other hand, have tended to stay away from countries with higher perceived risk profiles in the past. However, this is changing as multinationals from developed and other emerging markets look to capitalize on Africa's growth by making acquisitions within the region.

As the PE industry in Africa matures, there will be a greater number of exits to other PE firms and via IPOs. Exits through IPOs have been limited in Africa because of the relatively small size of many stock markets outside of South Africa.

In 2011, an agreement between FTSE and 16 of the 22 members of the African Securities Exchanges Association (ASEA) was reached to launch the FTSE-ASEA Pan Africa Index. The exchange increases the visibility of African stocks and makes them more easily accessible to the investors. There are currently 19 member countries.

Figure 18. Selection of PE exits in 2012

Company	Exiting PE firm	Country	Sector	Exit route	Buyer name
Accra Mall	Actis	Ghana	Real estate	Strategic sale	Atterbury, Sanlam
Anvil Mining	ECP	Democratic Republic of the Congo	Extractive industries	Strategic sale	MMG Malachite Limited
Atio	Ethos	South Africa	IT	Management buyout	Atio management buyback
Fintech	Investec	South Africa	Financial services	Sale to PE firm	RMB Corvest
Fidelity Supercare Services Group	RMB Corvest	South Africa	Business services	Strategic sale	Compass Group
Golden Lay	Aureos	Zambia	Agribusiness	Sale to PE firm	Phatisa (African Agriculture Fund)
MTN Nigeria	African Capital Alliance	Nigeria	Telecommunications	Strategic sale	Sale to investment holding company
Petro Ivoire	Cauris Management SA	Cote d'Ivoire	Power generation and distribution	Sale to PE firm	Undisclosed
Poulina Group Holding	Actis	Tunisia	Business services	Undisclosed	Undisclosed
Pronto Readymix	Capitalworks	South Africa	Industrials and manufacturing	Strategic sale	Pretoria Portland Cement Company Limited
SAVCIO	Actis, Ethos	South Africa	Engineering and construction	Strategic sale	Actom
Umeme	Actis	Uganda	Power generation and distribution	IPO	Ugandan Stock Exchange

Source: Private equity firm websites, Thomson Reuters, Factiva, Private Equity Africa

Research identifies what PE firms could do better when selling to trade buyers

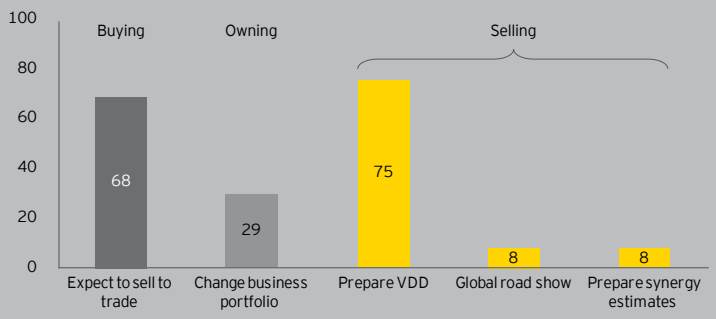
According to our recent research, PE firms could work harder to engage with potential trade buyers. This is especially the case when the planned exit is to a multinational trade buyer, and even though the research is focused on European exits, it is applicable to other regions in the world including Africa.

This is important because our research shows that PE firms that invest the time to prepare thoroughly for an exit can enjoy a relative uplift in return.

Examples of activities that could support successful trade exits include:

- Having a strong exit thesis to trade buyers at the point of entry
- Reshaping the business portfolio to make it more interesting to trade buyers
- Doing full suite vendor due diligence (VDD) prior to exit
- Going on a global road show to meet with corporate acquirers
- Preparing synergy estimates for potential strategic buyers

Figure 19. Activities to support trade exits, as % of 2010–2011 trade exits



Source: *How do private equity investors create value?: 2011 European Study,* Ernst & Young, 2012.

Checklist for PE firms positioning their African portfolio companies to multinational trade buyers

In addition to the points at the left, PE firms that are positioning their African portfolio companies for sale to multinationals need to focus on certain value drivers that are of particular interest to international trade buyers and that effectively assist a multinational in de-risking its African investment. These include but are not limited to:

- Timely and high-quality financial reporting that meets international standards and expectations
- A sufficiently detailed and supportable financial and strategic plan
- Strong corporate governance practices and policies
- Operational excellence and application of international standards (e.g., ISO standards)
- Regional footprint and scalability
- Established professional and experienced management team with continuity and/or succession plans
- Central administration and secretarial records fully up-to-date
- Key legal contracts signed and current

Outlook

Growth expected to remain resilient

Africa is demonstrating strong fundamentals that signal continued growth in the medium term even as the situation in the Eurozone continues to remain uncertain and growth slows in China. Continued improvements in governance, greater political stability and commitment by governments to create environments in which companies can do business more easily should further support this growth.

PE investors should continue to see opportunities. Sectors benefiting directly and indirectly from the growth of the African consumer should continue to attract much of the investment targeted at the region, and markets outside South Africa will continue to gain a greater share of PE investment. Relatively low PE penetration and smaller entry multiples relative to developed economies and most other emerging markets mean that PE firms will be able to continue to make investments with limited capital input.

With a large number of private companies requiring growth capital and limited availability of alternative funding, PE is well placed to become a significant enabler of growth across the African continent.

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