Challenges of Private Equity Exits

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Outline

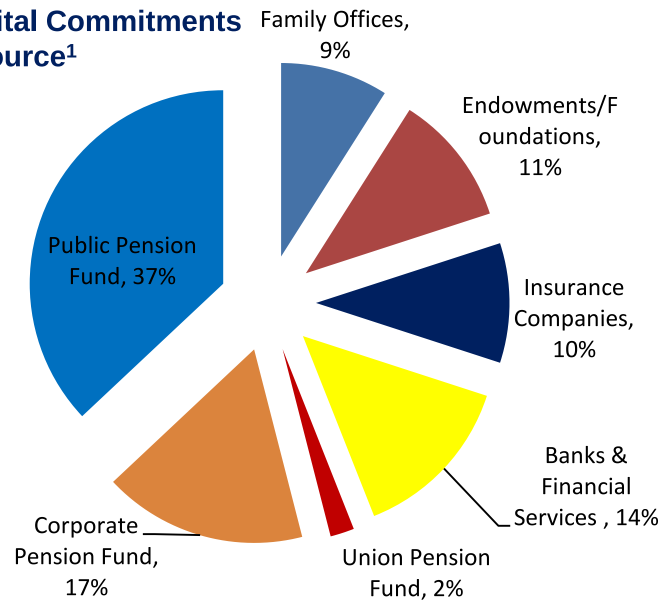
- What is an Exit – definition & types
- Exit as A Validation of PE
- PE Exits in Africa
- Challenges of & Strategies for Achieving Successful PE Exits
- About Synergy Capital Managers & Synergy Private Equity Fund

What is an Exit

WHAT IS AN EXIT?

- Avenue by which private equity investors realize the return on their investment after a period of time (usually between 3 & 7 years)
- Potential exit opportunities play an important role in an investor's decision whether or not to invest in a company
- Exit vs. Liquidity
  - Exits create liquidity but liquidity is not an always exit
  - Liquidity events allow investors to cash out some or all of their ownership shares in an investee company
  - Mezzanine structures are optimal for achieving ongoing liquidity/return of capital to the investor before final exit

Global Capital Commitments to PE by Source[1]



1 2006 Data: Over 110 global funds with total capital of over $44 billion
Source: The PE Analyst 2006 Source of Capital Survey presented in PE Analyse, April 2007

Types of PE Exits

- TYPES of EXITS
  - Sales to Strategic Buyers
    - Accounts for 50% of exits with regionals and local companies most active: highlights increasing pan-African expansion by local players consolidating across continent – i.e. Tiger Brands of SA buying Deli Foods of Nigeria in 2011; Voltic of Ghana acquired by SABMiller in 2009; Shaduka buyout of ACA's stake in MTN Nigeria in Q4 2012
    - Multinationals accounted for 15% of trade sales between 2010-12, 31% between 2007-09
  - Secondary Buyouts (sale to other PE funds)
    - In 2012, secondaries made up 23% of exits vs.12% of exits in 2007 (Examples include exit of GZI by a local PE firm to Standard Chartered PE in Q1 2013 & Ethos Private Equity of SA acquisition of controlling stake in AutoZone from RMB Corvest and Zico Capital in Jan 2015)
    - Suggestive of maturing market and expected to increase in the coming years
  - Sale of Shares on the Stock Exchange/Initial public offering (IPO)
    - In 2012 – 9% of exits via sale of the stock exchange
    - Africa PE firms buy and sell minority positions in listed company (reflects practice of acquiring minority stakes)
    - IPO market for exits more established in South Africa vs. Nigeria
    - More recently, PE firms opting for listings on the London Stock Exchange

Example of Strategic Buyers

Examples of Secondary Buyout Acquirers

Stock Exchanges with recent African PE IPOs

Why are PE Exits Important

How is success measured?

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Exits as A Validation of PE

- **Successful exits are critical to ensuring attractive returns for investors**

  - fund managers promise LPs hurdle rate plus multiple of the invested capital irrespective of carrying cost/valuation of the company

  - Must exit the company/investment to achieve the return i.e. money-on-money back (MoM)

- **Confirms underlying value in the investee company**
  - i.e. reflects work that has been done growing revenues, profits, margins. Fund managers dedicate majority of time post-investment to adding value to the company to ensure good exits

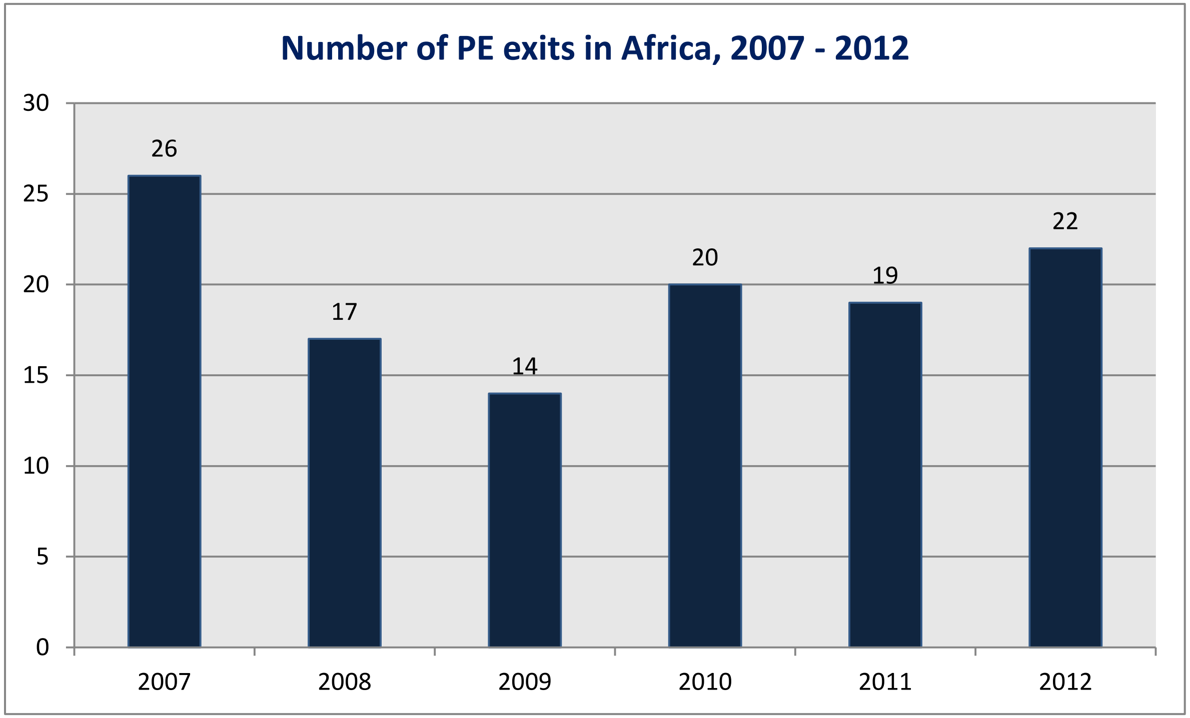
- **Important in attracting further investments/ raising additional capital** – fund managers showcase successful exits as tangible proof of investing prowess to new attract capital

- **Develops/Nurtures the overall PE ecosystem**
  advisers, issuing houses & lawyers are active participants in realizing the investment

- **Catalyst for entrepreneurial activity** – successful exits creates an environment that encourages entrepreneurial activity with cascading impact on productivity and economic growth of the country

PE Exits in sub-Sahara Africa

- STRONG MOMENTUM FOR PE EXITS i
  - E&Y & AVCA recorded 118 PE Exits between 2007 and 2012 in its inaugural study of PE exits in across African released in 2013
  - South Africa accounted for 42%, West Africa at 25%; East, North and Southern (excluding SA) accounted for 11% each
  - Larger economies – SA, Nigeria, Egypt and Ghana accounted for 74% of exits



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

Challenges of PE Exits

SYSTEMATIC

- Affects all firms/companies
- Can result from macroeconomic /business cycle
- Illiquid stock exchanges/weak financial markets

IDIOSYNCRATIC

- Can be mitigated but can extend exit timeline significantly if not addressed
- Poor documentation- financials /fillings
- Institutionalization – Weak management /lack of continuity/poor processes
- ESG (Environmental, Social and Governance)
- Lack of good advisers
- Overpaying for the company

Challenges of PE Exits/Strategies for Success

CHALLENGES

AQUISITION PRICE – Overpaying for an asset

- Overpaying for a company limits the upside that can accrue to the investor irrespective of the exit strategy employed

POOR DOCUMENTATION

- Poor documentation - registrations, financial reporting and corporate fillings – can affect the info available to a potential acquirer for decision making
- Exit process can be long (3-6months) and longer depending on local regulatory requirements
- Waiting for the exit process to commence before planning will delay extend the exit timeline unnecessarily

STRATEGIES FOR SUCCESS

AQUISITION PRICE – Buying at the right price

- Important that the investor acquires the target company at a reasonable valuation to ensure that maximum value can accrue to the investor.
- Avoid "beauty contest deals" – avoid overpaying for deals by leveraging local network of contacts and structuring deals with potential exit avenues at the forefront

ACCURATE & COMPLETE DOCUMENTATION

- Good documentation, including corporate registrations, fillings, etc assures that the potential acquirer has adequate info for decision making
- Exit preparation should commence at the outset of the investment – including setting up an optimal investment vehicle & domicile and clear agreements to build trust between shareholders and the PE investors ahead of exit discussions

Challenges of PE Exits/Strategies for Success

CHALLENGES

POOR INSTITUTIONALIZATION

➢Weak management/board capacity, lack of continuity & weak processes/procedures can adversely affect the ability to exit the investment successfully

➢Weak processes include inadequate financial reporting systems and regulatory compliance as it relates to taxes, etc

POOR ENVIRONMENTAL & SOCIAL (ESG) COMPLIANCE

➢Insufficient ESG compliance can affect the exit price an investor can attract for the investment

➢Includes poor environmental sustainability practices, inadequate HSE practice and employee workplace standards

STRATEGIES FOR SUCCESS

EFFECTIVE INSTITUTIONALIZATION

➢Strong and effective management & board of directors and assurance of management continuity provides a better chance of achieving successful exits

➢Embedding strong processes including strong financial reporting systems and regulatory compliance are critical to a profitable exit

ENVIRONMENTAL & SOCIAL (ESG) COMPLIANCE

➢Operating a business in an environmentally sustainable manner is a key element to capturing a significant portion of the value at exit.

➢ Solid business integrity & HSE practices, in addition to employee welfare standards

Challenges of PE Exits/Strategies for Success

CHALLENGES

LACK OF GOOD ADVISERS

- Lack of experienced advisers with requisite skills to navigate the local environment may affect investors ability to exit the investment
- Advisers are critical to structuring the exit to minimize taxes and other transactional expenses

STRATEGIES FOR SUCCESS

EXPERIENCED ADVISERS

- Experienced advisers with requisite skills to navigate the local environment can add significant value to ensuring a successful exit of the investment
- Advisers are critical to structuring the exit to minimize taxes and other transactional expenses

SPEF – Synergy Private Equity Fund LP

Target Size

US$75m
(Hard cap of US$100m)

GP Commitment:
US$3.75m (5%)

Key Terms

Fund Domicile	**Mauritius**
Fund Term	**10 years (plus 2)**
Investment Size	**$1m – $10m**
Commitment Period	**5 years**
Fund Manager	**Synergy Managers (Mauritius)Limited**
Administrator	**Augentius Fund Administration**
Legal Counsel	**O'Melveny & Myers LLP**
Bankers	**Afrasia Bank, Mauritius**

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SYNERGY CAPITAL MANAGERS LIMITED- Overview

With strong experience in finance and private equity in Nigeria, West Africa and international markets, Synergy Capital's principals offer global and local investors access to unique sub regional investment opportunities by leveraging on its robust experience, market presence and strong relationships to position SPEF for success. The Fund Manager, Synergy Managers (Mauritius) Limited (SMML) is domiciled in Mauritius. Synergy's investment professionals have over 50 years combined experience in private equity, investment banking and alternative assets in Nigeria, Ghana and the United States. Our principals' track record includes 9 exits, across 20 deals in 10 years. The manager made its first investment in Neplus Advisory in Feb 2015

Fund Overview

Synergy Private Equity Fund (SPEF), with a targeted fund size of $75 million, is a Mauritius-domiciled fund managed by Synergy Managers (Mauritius) Limited (SMML). The Manager is deploying a robust investment strategy focused largely on investment opportunities in select high potential industries viz Oil & Gas (mid-stream & services), Agro-Allied Processing, ICT, FMCG, Power & Non-bank financials, primarily in Nigeria (75%),and Ghana (25%).The fund manager's competitive advantage in the West African sub-region is borne of out of its broad experience, strong partner network and deep market knowledge .

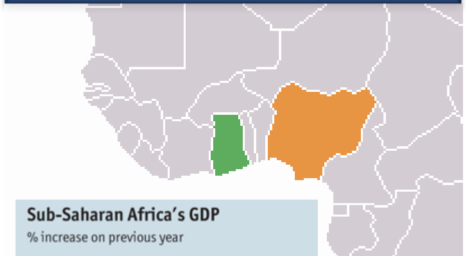
Strategy: Investment in strong management teams.

The Fund will make investments in transactions negotiated privately with the entrepreneur/management or relevant shareholders of mainly private companies. Typical investment size will range from $1million – $10million in equity or quasi-equity instruments for a significant minority holding and to maximize returns. The Fund will only make investments in companies with strong management teams that have a proven history of delivering sterling corporate performance. The SPEF investment process includes a rigorous framework based on set criteria for evaluating opportunities. The Fund will utilize structures that provide on-going liquidity throughout the life of the investment to enhance investment return.

Strong management team with access to quality deals

The Fund is managed by an experienced management team with a robust history of working together to deliver value to investors and stakeholders. Members of the team are in place and have experience in generating and evaluating investment opportunities, analyzing businesses to ascertain their competitive edge and industry niche, developing structures that enable enhancement of investment return, working with management teams to execute business plans, and raising supplementary debt capital where required. Collectively, the management team has over 50 years experience in finance and private equity and have strong relationships and history in the fund's target market which gives them access to attractive opportunities.

Target Region



Synergy Capital History

Commenced business in 2007.

Within 6 years, raised over $550million for 15 world class management teams who have created over $1billion in shareholder value.

Expanded offerings in Nigeria to include balance sheet restructuring and since 2011, helped clients restructure over $600 million in debt instruments.

Expanded into Ghana in May 2010 and currently exploring additional attractive African markets. Over the last two years, raised over $20 million debt capital for companies in oil & gas and agro-processing sectors while also investing in a midstream infrastructure asset which was exited in Q3 2014.