NASD PLC Private Equity Conference 2015 “Simplifying Private Equity Exits”

“Size dynamism of the PE industry & valuation issues in Africa”

By Bisi Sanda

EY
Building a better working world

February 2015

Background

Private equity in Africa

Introduction to private equity in Africa

- Over the last several years say last 2 decades, emerging markets have evolved into a critical pillar of global investors' strategies. As growth rates relatively declined across most of the developed world before and in the aftermath of the global economic melt down and credit crunch, private equity (PE) firms turned to emerging markets as an engine of growth. As of 2009, emerging markets represented approximately 12% of total PE fund-raising. Now, they account for more than 20%.

- While global investor interest has begun shifting back in favor of the growing developed economies in early 2014 and away from some of the emerging economies that have weaker economic or political environments, Africa's strong long-term growth fundamentals should continue to drive the development of the PE industry on the continent.

- With a third of African countries growing at more than 6% annually, Africa has certainly arrived on the global economic landscape. The continent has demonstrated economic stamina over the last few years, emerging relatively unscathed from the financial crisis in comparison with most other regions and continuing to grow rapidly despite concerns about slowing growth in other emerging markets, such as China and India. Today, the continent accounts for many of the world's fastest-growing economies, driven by an expanding middle class, improved business environments and increasingly stable political democracies.

Introduction to private equity in Africa

- The African PE industry is gradually coming out of its infancy, with a variety of both global and local players exploring opportunities in Africa.
- A growing limited partner (LP) appetite for Africa is reflected in improved fund-raising numbers, and 2013 & 2014 saw some notable fund announcements by leading PE firms. PE investment activities (both value and volume) have increased since last 8 years across a range of industries, with opportunities being explored in consumer-driven sectors and sectors benefiting from commodity-led and infrastructure-led growth.
- Sub-Saharan African countries such as South Africa, Ghana, Kenya, Nigeria, Côte d'Ivoire and Uganda, are attracting increasing investor interest. Exits have been relatively muted in 2013, primarily because of external events. However, the pipeline for exits in the medium term looks strong as there have been a significant number of PE investments on the continent over the last five years, and many PE firms now have maturing portfolios that are ripe for exit.

Introduction to private equity in Africa

- Several factors have combined to make the continent more attractive to investors. Africa is becoming more politically stable, with fewer conflicts today than at any point in the last 50 years. It is increasingly integrated into the global economy, and with trade comes more robust regulation.

- Standards of governance are rising and local managers and investment professionals are becoming more sophisticated. Africa's wealth of natural resources, rising population and its expanding middle class, and the conditions for growth are evident. A recent report from McKinsey predicts demand for capital on the continent will rise by 8% a year between 2014 and 2018.

- Despite this, a number of risks remain. While most of Africa countries are generally more peaceful than in the past, conflict and terrorism still remain real risks in some parts of the continent. Corruption in some areas is rife, and the global reach of anti-bribery laws demands constant vigilance from investors.
- A review of the World Economic Forum Investment Attractiveness Index shows that a lot still needs to be done in many African countries including Nigeria. So not yet 'Uhuru'.
- The PE firms can be classified into three groups:
  - ✓ domestic African funds (managers that invest only in Africa);
  - ✓ global African funds (firms with Africa-specific funds that also manage funds investing outside the continent); and
  - ✓ global funds (global players managing funds that do not have an Africa-only mandate).

African private equity market is classified into three investor classes…………

All 3 categories are present- domestic african (African Capital Alliance etc,) Global African Funds (Emerging Capital Partners) and Global Funds (Carlyle)

Domestic African Funds

PE managers that only invest in African assets. These firms generally do the most deals with the lowest relative values……

Global African Funds

Firms that manage both Africa-specific funds as well as at least one fund that invests outside the continent. When they invest in African assets they are able to leverage their international footprint and experience to enhance value.

Global Funds

Typically the bigger players. They have no particular focus on Africa, but will invest if assets with the right profile become available.

Introduction to private equity in Africa

Key findings for African PE in 2013.

- US$3.2b was invested in 98 PE investments.
- US$3.3b was raised through PE funds closed.
- LPs rated Africa as the most attractive emerging market.*
- Half of all African countries (27) are now "middle income" countries.**
- Unique PE investment strategies and platforms are evolving.

*2013 Global Limited Partners Survey, Emerging Markets Private Equity Association

**As defined by the World Bank

From 2000 to 2009, Africa had the highest number of economies growing above 7% per annum of any continent in the world.

Figure 1. Africa accelerates past Asia*

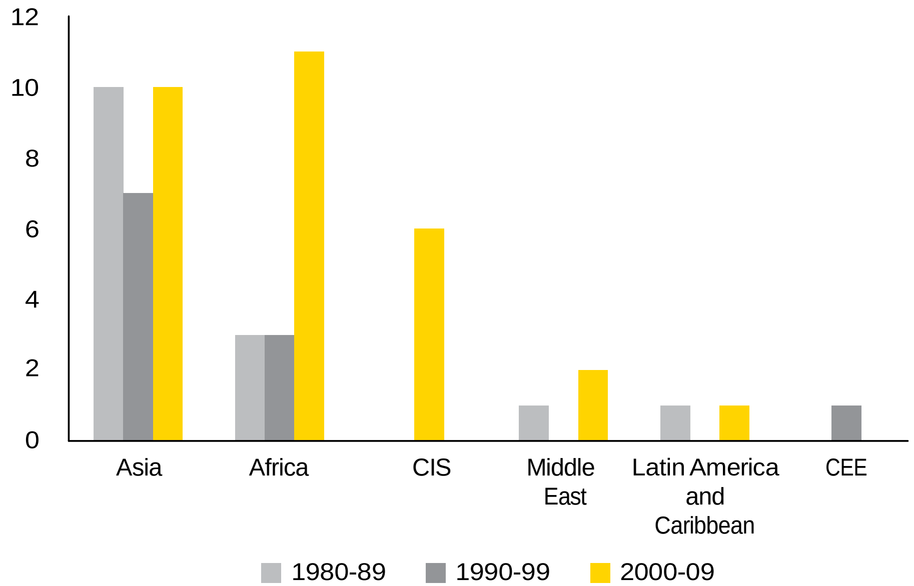
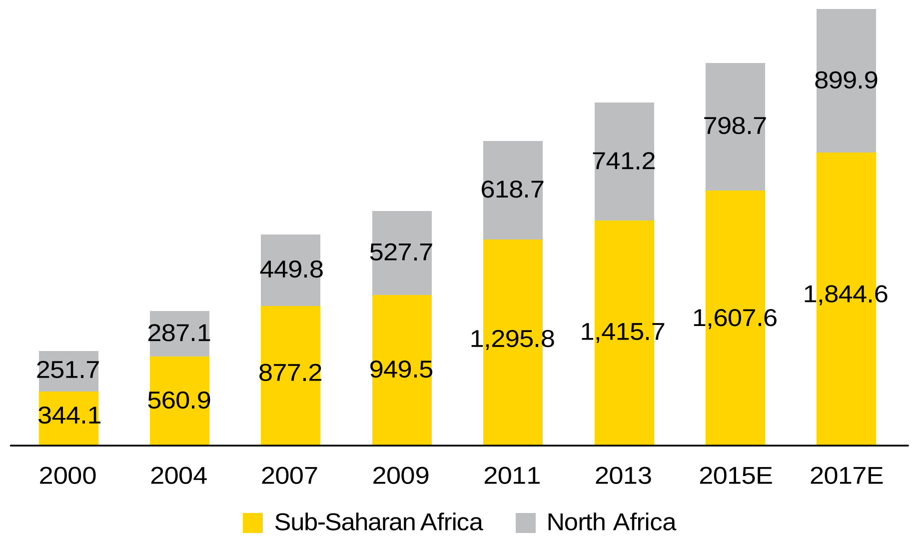


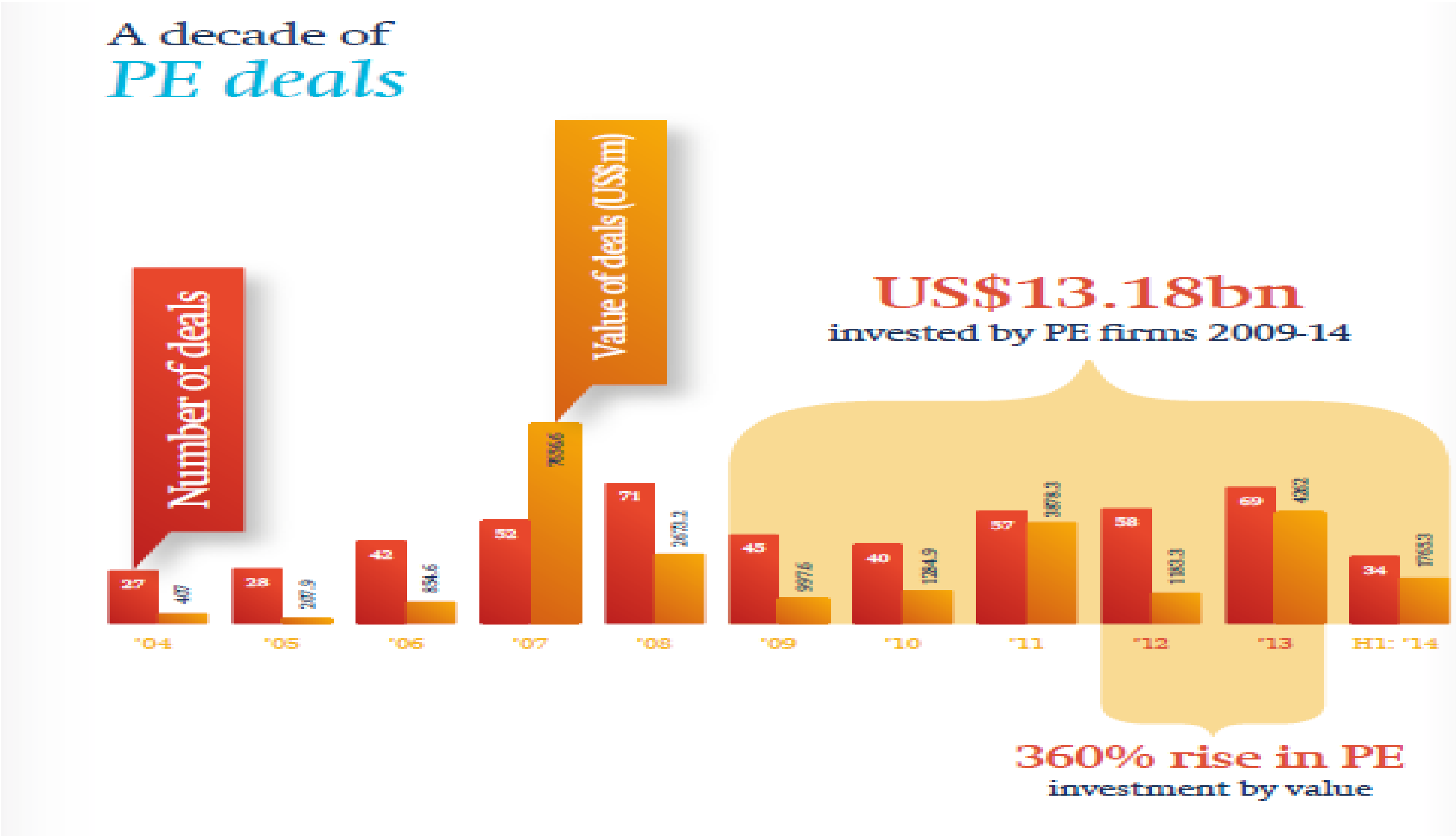
Figure 2. Africa's economic output (GDP, US$b)



Source: IMF World Economic Outlook Database

Going forward, the International Monetary Fund (IMF) predicts that African countries are likely to post relatively higher economic growth rates compared with some developed and emerging nations. According to the IMF, between 2011 and 2015, 7 out of the 10 fastest-growing economies in the world will be in Africa, and by 2017, that number will grow to 11 out of 20.

Private equity investments in Africa

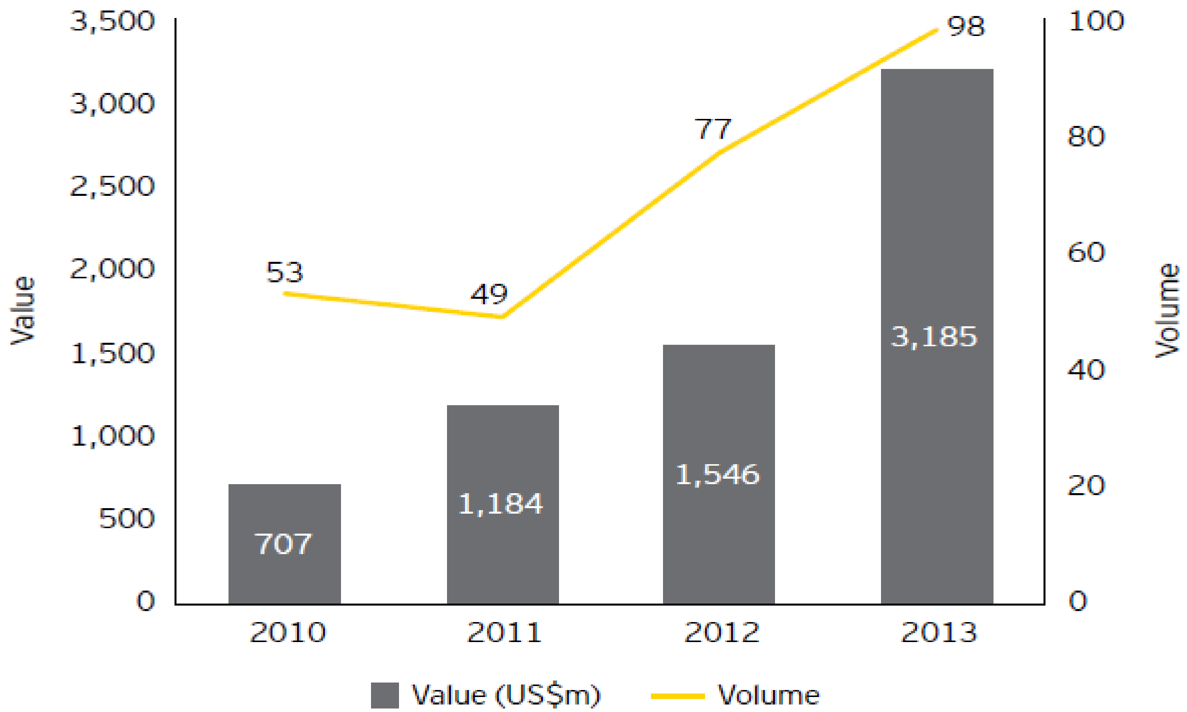


Source: Into Africa: the rise of Private Equity, Freshfields Bruckhaus Deringer

EY

Private equity investments in Africa

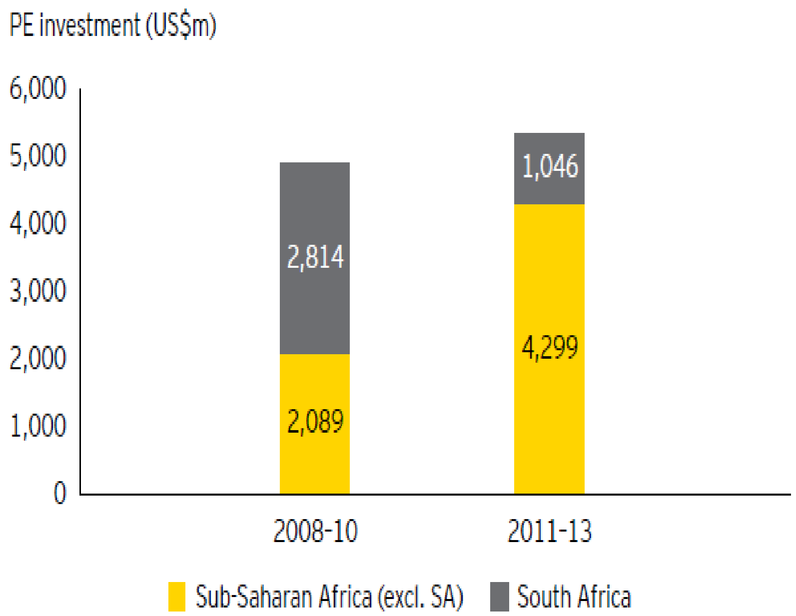
Annual PE Investments in Africa (US$m)

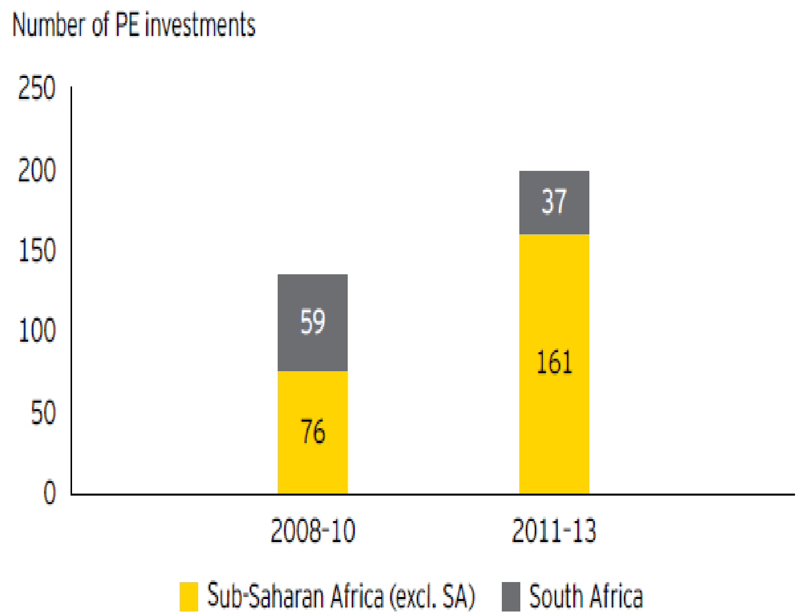


Sources: EMPEA (2010-12 data), AVCA (2013 data). Investment totals reflect total equity amounts for transactions in which financial details have been disclosed.

Private equity investments in Africa

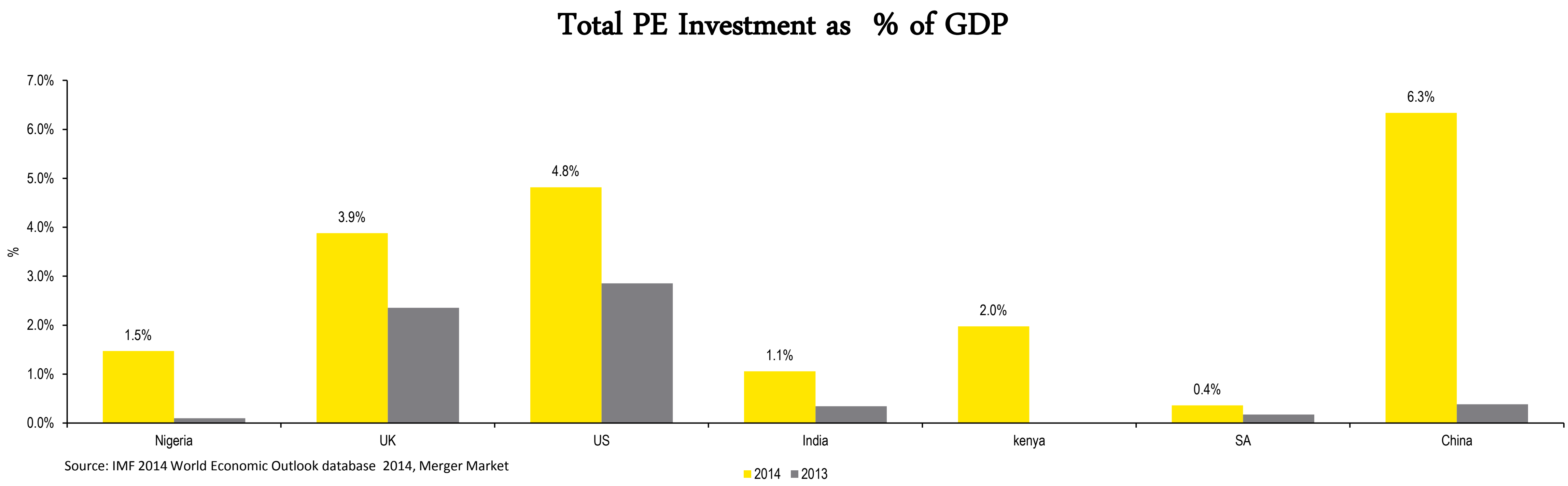
PE Investments in Sub-Saharan Africa versus South Africa, number and value of investments





Sources: EMPEA (2008-12 data), AVCA (2013 data)

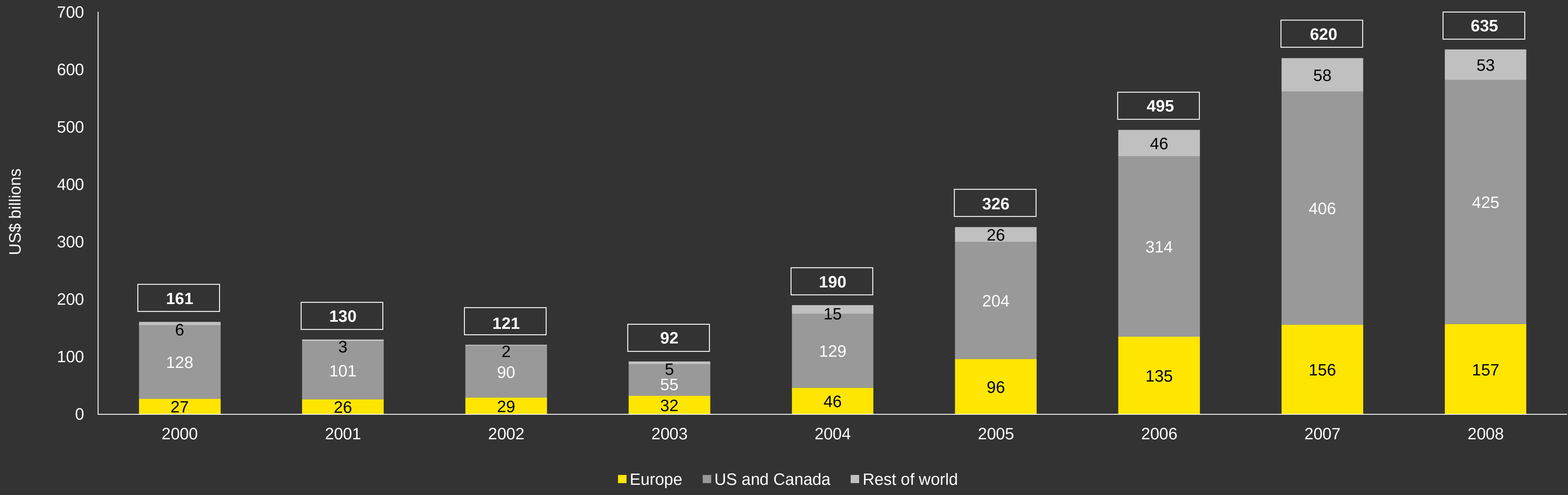
Total PE investments as % of GDP



Source: IMF 2014 World Economic Outlook database 2014, Merger Market

Global PE Fundraising (2000 to 2008)

Figure 2. Global PE fund-raising, 2000–08

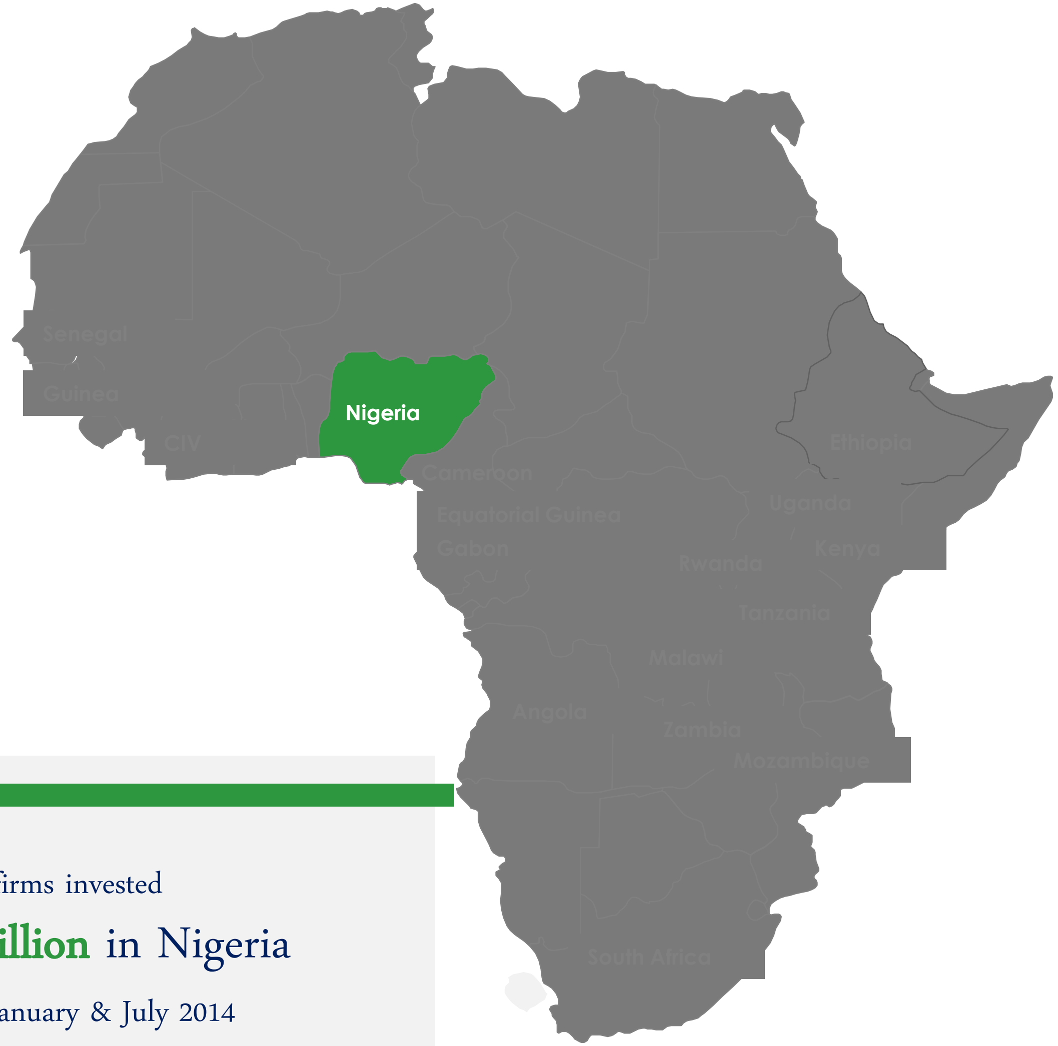


Nigeria – Africa's "Colossus"

On 12 April, 2014 Nigeria's economy was rebased and declared Africa's biggest economy with its GDP increasing by 89% to US$510bn for 2013($384 before rebasing 2013 $300b changed to $453b), 38% bigger than South Africa's.

The new numbers confirm that Nigeria is really is the colossus of the continent'. Economic growth has averaged around 7% for the immediate 10 years to 2014.

Nigeria has topped the table for PE deal
value in Africa every year since 2012, attracting almost a third (31.4%) of the total private equity investment on the continent over the past five years to 2014: Into Africa Freshfields Bruckhaus Deringer.



PE firms invested

US$925million in Nigeria

Between January & July 2014

EY

Funds raised in 2014 i.e. Immediate Future Private equity investments in Africa

S/N	Name of Fund	Year	Target Fund Size/Amount Size/Amount Raised	Focus Area
1.	Helios Investment Partners	2014	$1.1bn	Africa
2.	Carlyle Group	2014	$698m	Sub-Saharan Africa
3.	Abraaj Group	2014	$900m	Sub-Saharan Africa
4.	African Capital Alliance	2014	$600m	Nigeria & West Africa
5.	ARM-Harith Infrastructure Fund	2014	$250m	West Africa
6.	Federal Government of Nigeria (ICT Ministry) Ministry)	2014	$16.2m	Nigeria
7.	Synergy Private Equity Fund	2014	$75m	Nigeria & Ghana

Private equity in Africa

Several of the biggest private equity firms in the world have turned their focus to Africa in recent years.

Major PE Activity in 2014

- US PE giant KKR invested US$200m in Ethiopian rose-grower Afriflora.
- Carlyle closed its first sub-Saharan fund after raising US$698m (almost 40 per cent more than it initially targeted), arguably making it the most high profile of the global African funds. The fund, which launched in 2011 and is managed from offices in Johannesburg and Lagos, has already closed three significant deals since its inception.
- Helios Investment Partners and Emerging Capital Partners, each of which has raised over US$2bn to invest in Africa over the last 10 years.
- Atlas Mara, the investment vehicle established by former Barclays CEO Bob Diamond and billionaire investor Ashish Thakkar which raised over US$300m through an IPO on the London Stock Exchange to invest in African financial institutions.
- The Abraaj Group acquired Fan Milk International – one of the biggest ever private equity investments in an African FMCG business. The investment took the group's commitments in Africa beyond the US$2bn mark.
- Abraaj is in the process of completing its capital raise for Abraaj Africa Fund III, a 10 year closed-end fund seeking to raise US$800.0million.
- ACA is in the process of completing its fund raise for its fourth Fund with expected size of US$600million. The 10-year Fund is targeted at growth companies in Nigeria and other countries along the Gulf of Guinea.
- The AFC in December 2014 completed its US$300million fund raise, hence is seeking high quality infrastructure projects that provide essential services in the core infrastructure sectors.

Exit activities as an a-posteriori evidence of huge PE activities in Africa

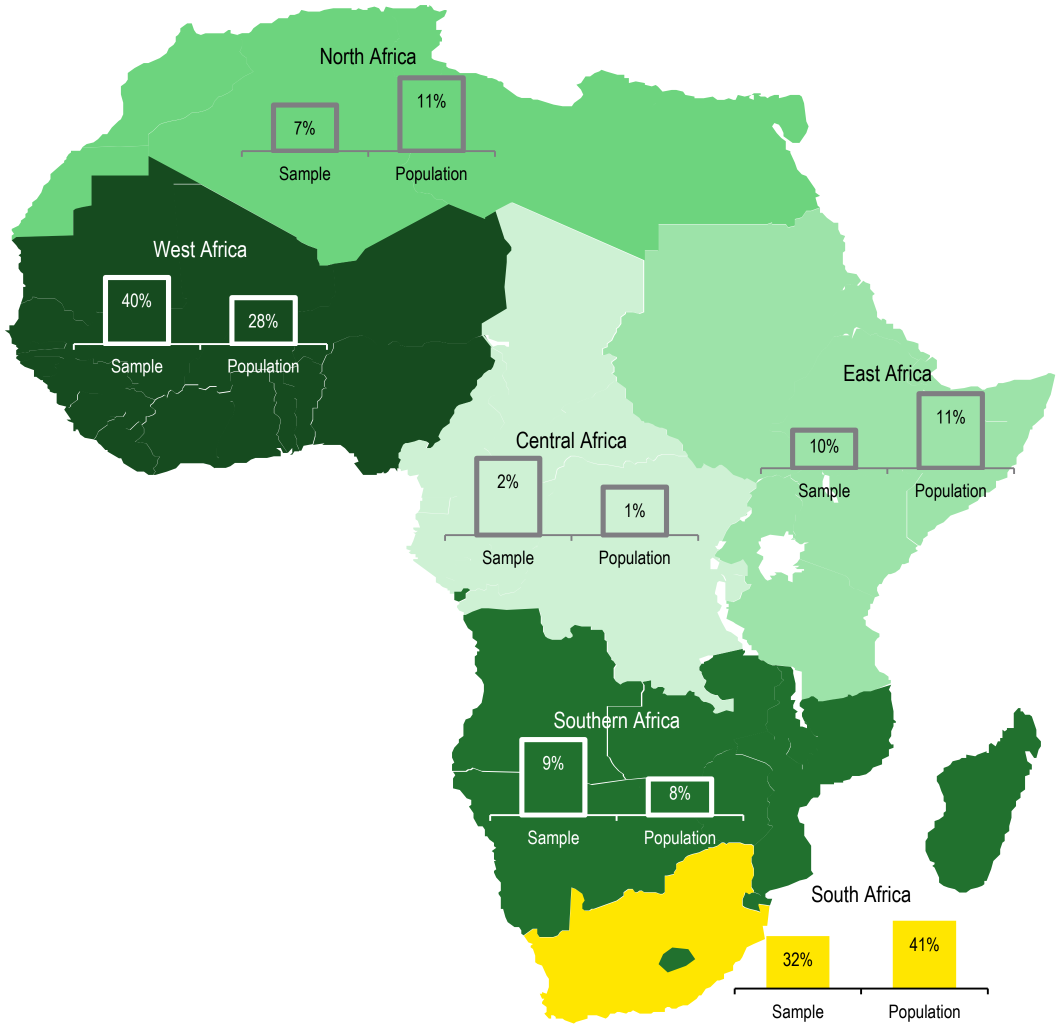
EY

Exit activity in Africa

South Africa is most dominant market in terms of volume

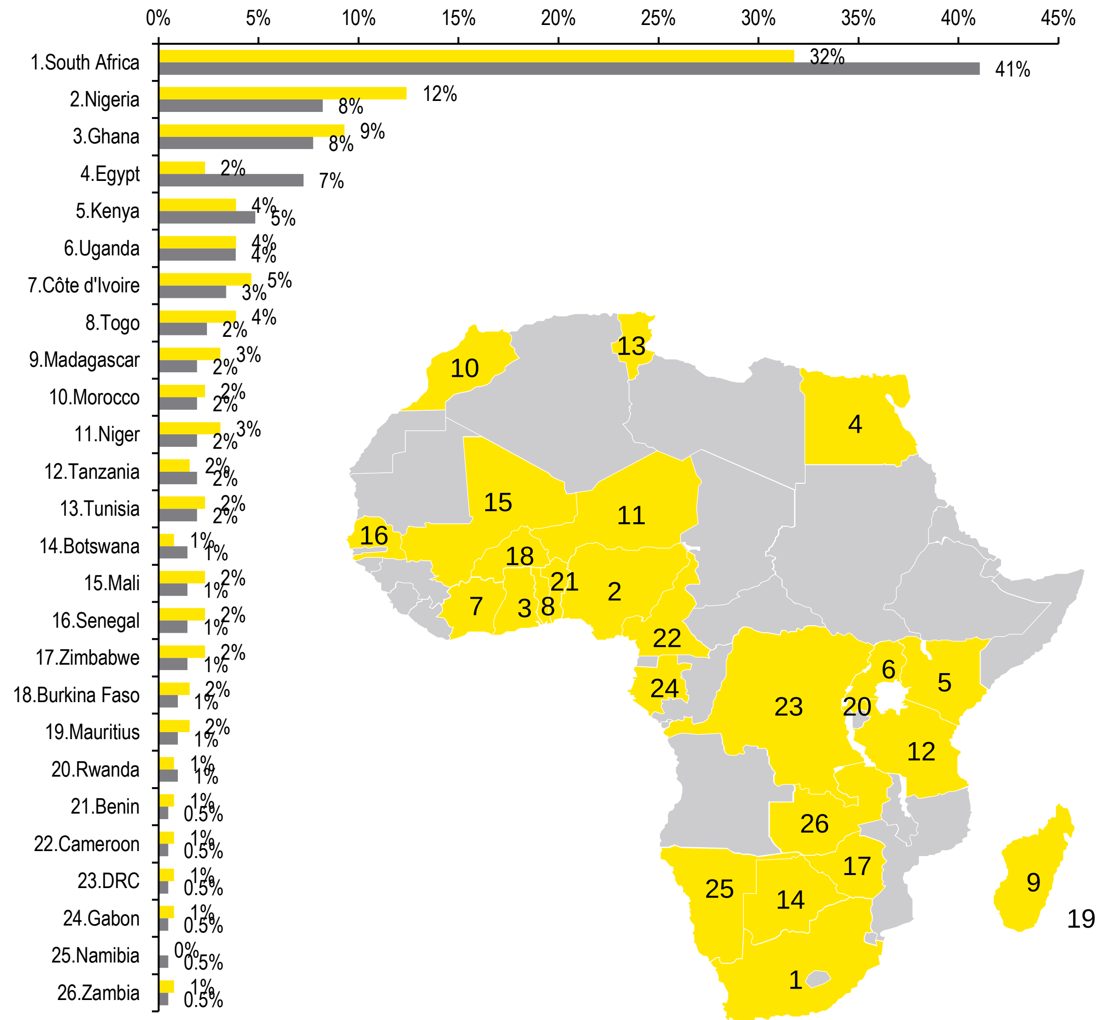
Exits by region, %

Source: EY, AVCA. n= 129 for sample, 207 for exit population



Exits by country, %

Source: EY, AVCA. n= 129 for sample, 207 for exit population



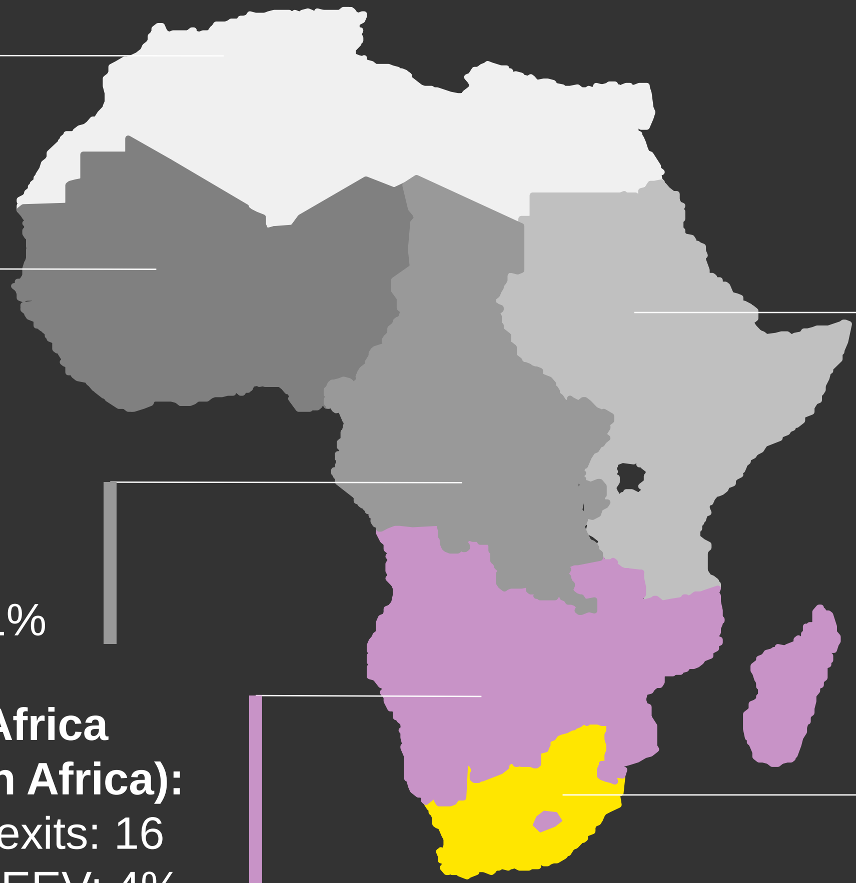
EY

Exit activity in Africa – by region

Exits by region

North Africa:
Number of exits: 23
% share of EEV: 16%

West Africa:
Number of exits: 58
% share of EEV: 26%



East Africa:
Number of exits: 22
% share of EEV: 7%

Central Africa:
Number of exits: 3
% share of EEV: 0.1%

Southern Africa (excl South Africa):
Number of exits: 16
% share of EEV: 4%

South Africa:
Number of exits: 85
% share of EEV: 47%

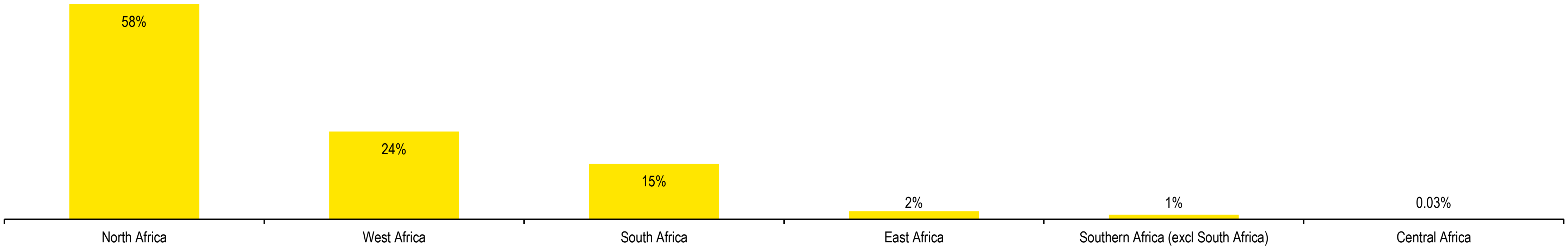
Source: *How do private equity investors create value?: 2013 Africa Study, EY and AVCA, 2013*

Exit activity in Africa

South Africa is most dominant market in terms of volume but not value

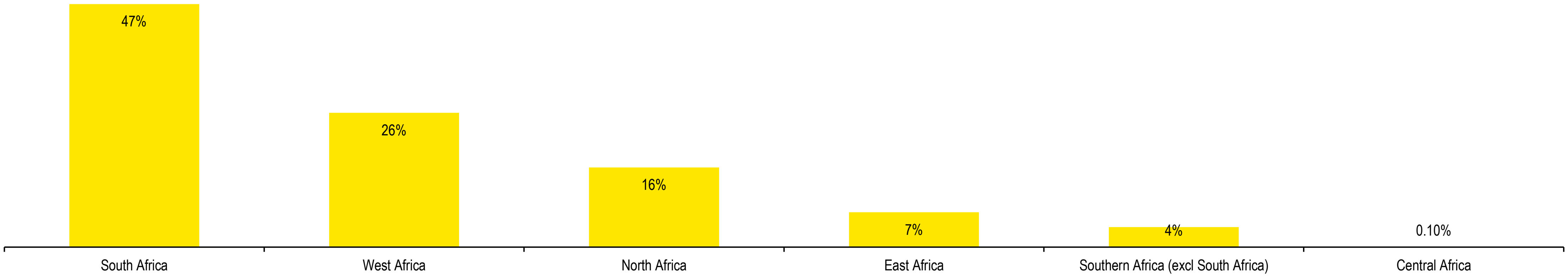
Exits by region, by total % entry EV

Source: EY, AVCA. n= 84 for sample



Exits by region, by total % entry EV (excluding top and bottom 5 outliers)

Source: EY, AVCA. n= 74 for sample



Exit Activity in Africa: More exit routes opening up

Relative returns by exit route

Exit route	Stock sale on public market	IPO	Trade	PE	Private	Creditors/ banks
Relative return	160%	133%	100%	93%	73%	7%
Average hold period (years)	5.5	5.3	5.0	5.5	6.1	4.0

Source: *How do private equity investors create value?: 2014 Africa Study, EY and AVCA, 2014*

Summary of PE exits in Africa

- Outperform public markets
- Outperform European and North American exits over last 3 years
- Yield higher average returns in East (+22%) & West Africa (+6%), mid-sized companies and in deals where PE owned majority stakes
- Usually sourced via proprietary methods but intermediated deals perform better
- PE portfolio companies managed by in-country offices have
  - shorter hold periods (5 years vs. 6 years)
  - 10% higher average returns
- Biggest driver for EBITDA growth is organic revenue
  - Sector growth important, but new products and improved pricing strategies increasingly important
- Highest returns are via exits on public markets and to trade buyers

Africa Outlook

- Increasing investor interest in Africa expected to strengthen the exit environment, particularly for larger companies
- Further focus on value creation and exits is required to reduce the backlog of exits
- Further country/regional diversification of investments is expected
- Exit activity is expected to increase, as is greater diversification of exit routes
- Continued outperformance means continent is well-placed to continue to attract further capital

Exit activity in Africa – by sector

Financial services most active sector, driven by growth in consumer

Financial services **19%**	Health care **5%**
Industrial goods **12%**	Travel and leisure **4%**
Agriculture/forestry **9%**	Mining and metals **3%**
Telecommunications **9%**	Retail **3%**
Construction and materials **8%**	Utilities/oil & gas **2%**
Technology **8%**	Personal and household goods **1%**
Food and beverage **7%**	Automobiles and parts **1%**
Business services **6%**	Media **1%**

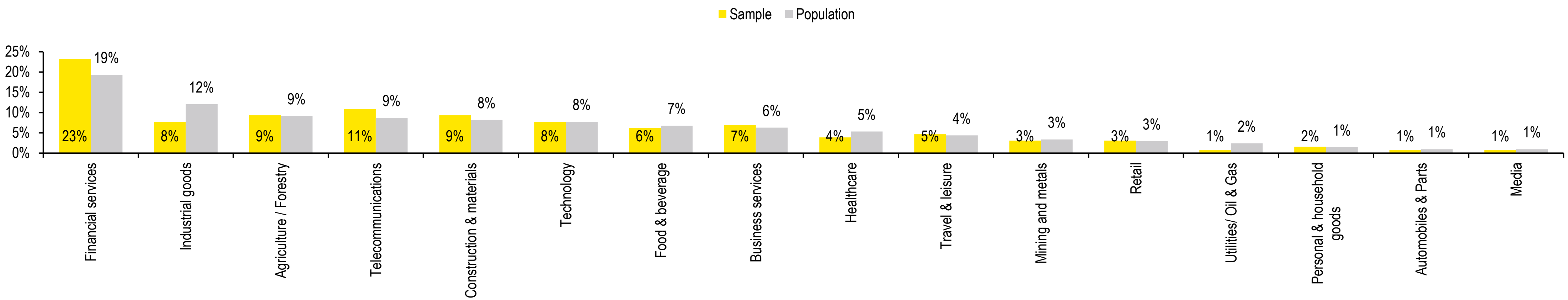
Source: *How do private equity investors create value?: 2014 Africa Study, EY and AVCA, 2014*

Exit activity in Africa *cont'd*

Financial services remains the most active sector, in terms of both volume and value

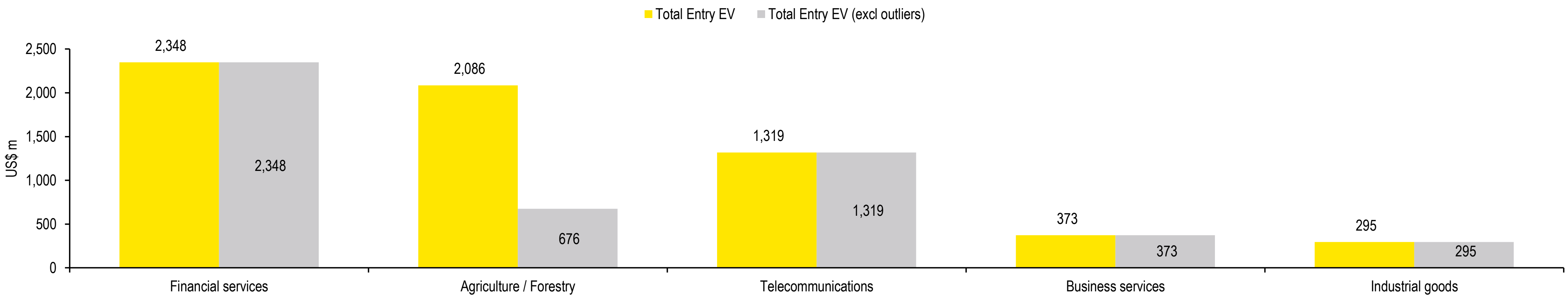
Exits by sector

Source: EY, AVCA. n= 129 for sample, 207 for exit population



5 sectors with largest entry EV

Source: EY, AVCA. n= 84 for total entry EV, n = 83 for total entry EV (excl. outliers)



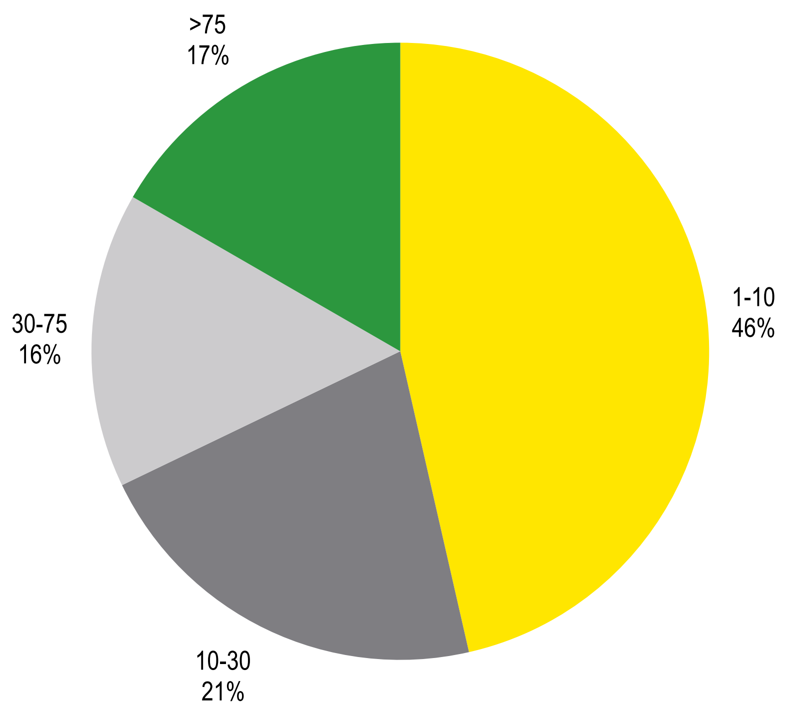
EY

Exit activity in Africa *cont'd*

Smaller deals dominate Africa PE landscape, but over half of companies were above $10m

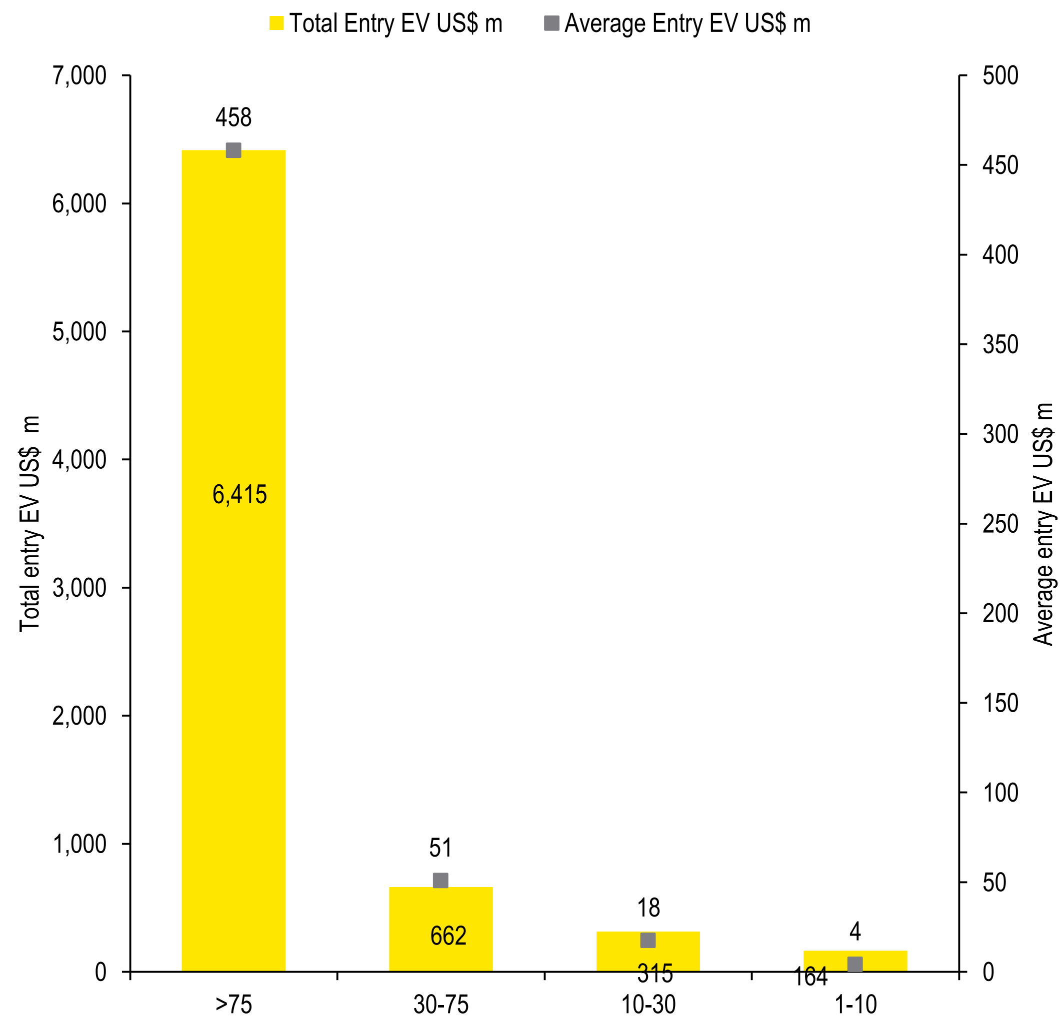
Exits by entry EV, sample, US$ m

Source: EY, AVCA. n= 84



Exits by entry EV, by entry EV size band, US$ m

Source: EY, AVCA. n= 84

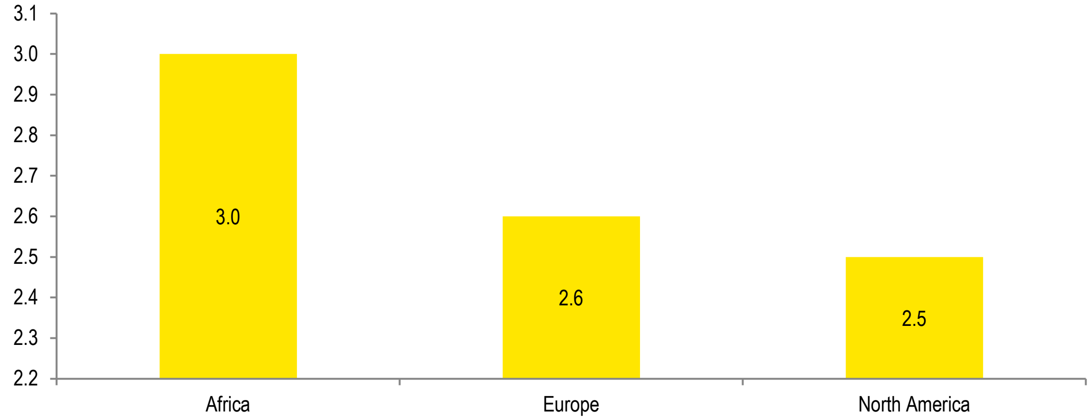


EY

Exit activity in Africa *cont'd*

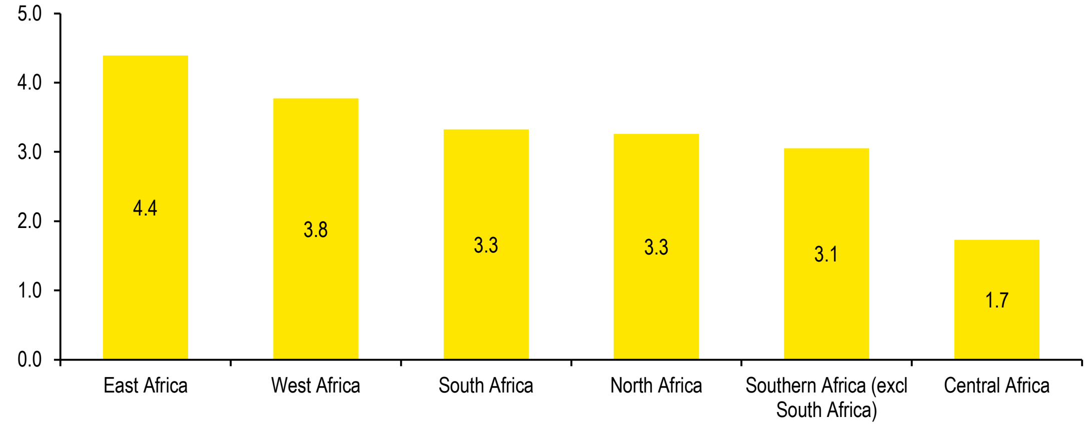
Africa outperforms developed markets over last 3 years; mid-sized deals perform better

Average returns multiples, Africa versus other regions, 2010-12 exits (excluding outliers)



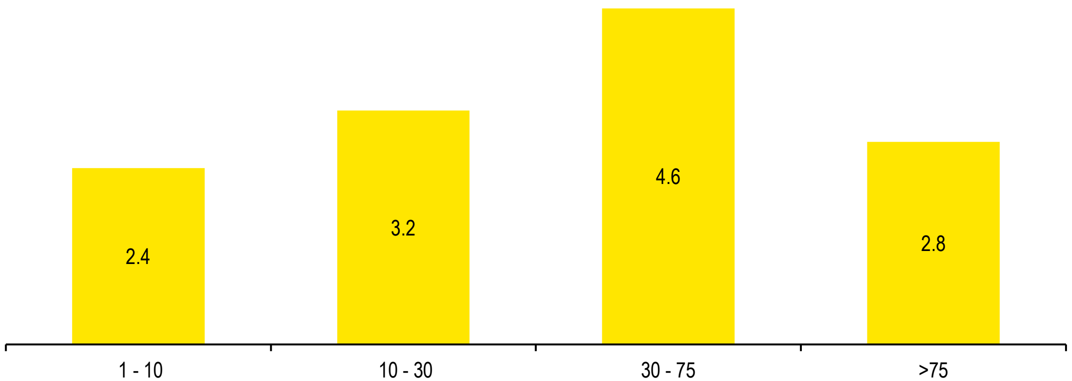
Average multiples by region, 2007-13 exits

Source: EY, AVCA. n= 108 for sample



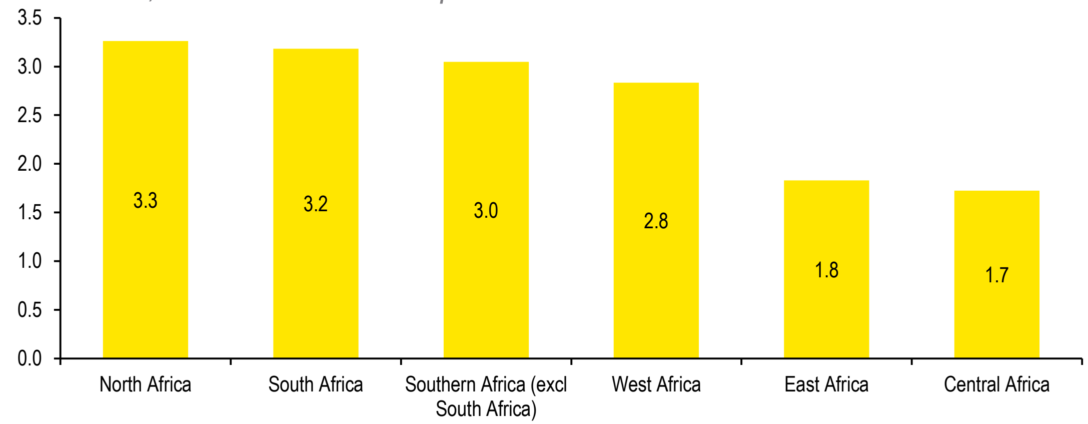
Average multiples by Entry EV size band, 2007-13 exits (excluding outliers)

Source: EY, AVCA. n= 71 for sample



Average multiples by region, 2007-13 exits (excluding outliers)

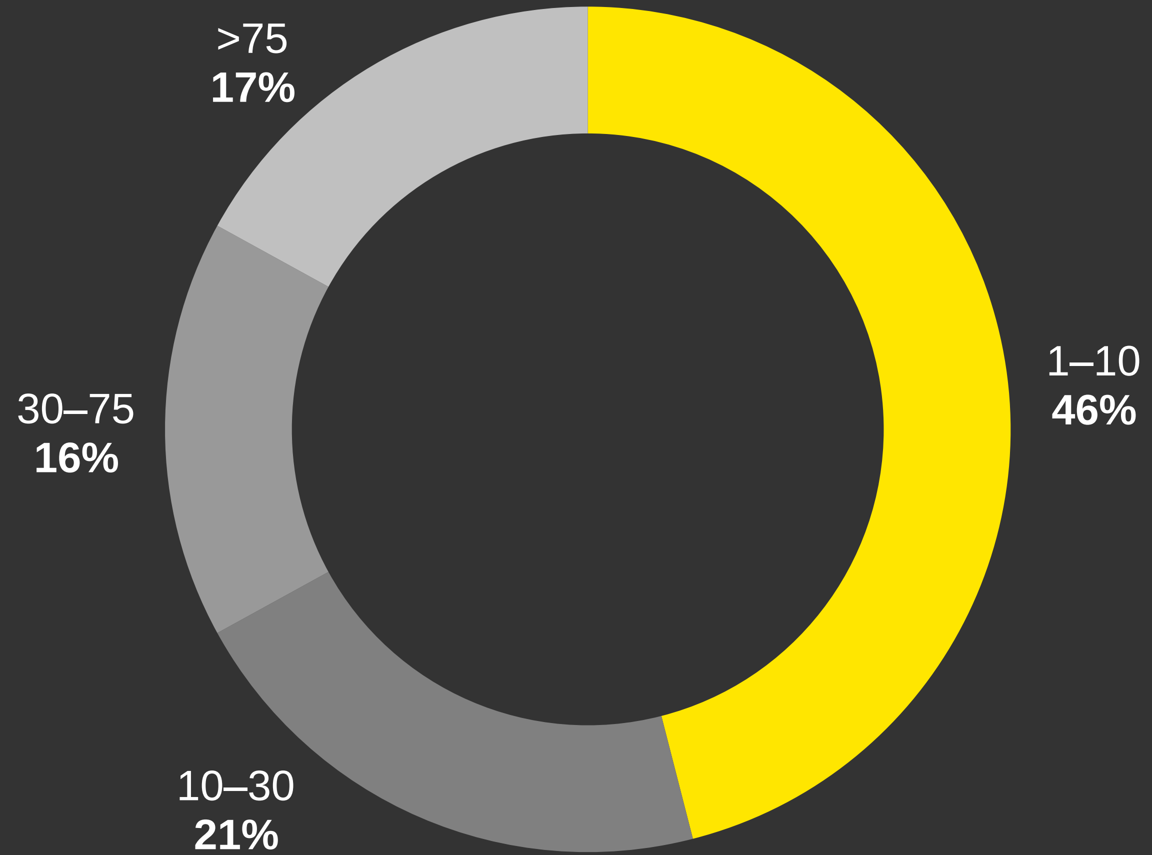
Source: EY, AVCA. n= 99 for sample



EY

Exit activity in Africa – by size

Exits by entry EV (US$m)



Source: *How do private equity investors create value?: 2014 Africa Study, EY and AVCA, 2014*

Conclusions.....

Implosion in PE

- PE has come to stay
- Tremendous economic return outperforming any other part of the world
- Deal size of US10 m and above adapted to the mid sized companies that Nigeria and the rest of Africa mainly offer. There are large deals of up to US1b however especially in power, oil and gas and infrastructure
- Investment environment's required area for improvement captured adequately in World Economic Forum Investment Attractiveness report for Nigeria and other African countries and in the 2014 edition
- Factors specific to PE thriving eg the capital market etc
- While other sources of investment funds are being stimulated- pension funds, savings, fdi(foreign), fdi(institution), development partners etc we need to focus well on PE


Thank You!