



THE SEARCH FOR RETURNS: INVESTOR VIEWS ON PRIVATE EQUITY IN AFRICA

AFRICAN PRIVATE EQUITY PERCEIVED TO BE MORE ATTRACTIVE AND PROFITABLE THAN OTHER EMERGING MARKETS

JOHANNESBURG 2 APRIL 2014: Africa's resilience to the global economic growth slow-down, its growing consumer base, and its many economic, political and social reforms, have all contributed to the continent being rated the most attractive destination for global emerging market private equity (PE) investors.

This is according to an inaugural study, [The search for returns: Investor views on private equity in Africa](#), produced by [RisCura](#), the South African Venture Capital and Private Equity Association ([SAVCA](#)) and the African Private Equity and Venture Capital Association ([AVCA](#)). The study charts investor attitudes to private equity in Africa, and was launched in Lagos today at the 11th Annual AVCA conference.

Those surveyed include family offices, endowments, banks, sovereign funds, foundations, pension funds, asset managers, development finance institutions, insurance companies and fund of funds (FoFs). Collectively, the respondents have over US\$150 billion in global PE assets under management and undrawn commitments of US\$50 billion.

"The results of the research show that a majority (almost 70%) of institutional investors surveyed believe Africa is more attractive than other emerging markets," says Rory Ord, Head of RisCura's private equity valuation business.

"Global institutional investors are currently extremely bullish towards African PE, with 85% of surveyed LPs indicating that they plan to increase their exposure to the continent's PE over the next 24 months," Ord says. Among the various types of investors surveyed, both African-focused and global fund of PE funds will spearhead the increase in exposure.

Says Michelle Kathryn Essomé, Chief Executive at AVCA: "This survey confirms a significant uptick in appetite for African PE among global investors, particularly among the newer investors in Africa such as fund of funds and family offices largely based in the USA."

EARNINGS GROWTH THE PRIMARY DRIVER

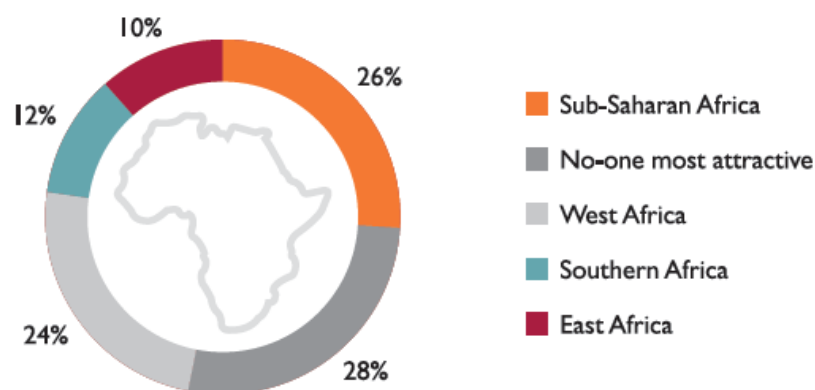
When asked to identify the main drivers of PE returns in Africa over the next 10 years, an overwhelming 69% of LPs identified earnings growth as the primary driver, in line with the high GDP growth rates forecast for most African countries and in contrast to other more developed markets. Furthermore, LPs do not expect leverage to play a significant role in the return on capital achieved. This may contribute to lowering the perceived risk of African PE.



“We would focus primarily on funds that make growth equity investments, and which will use very little if any leverage. As such, we expect that there would be operational improvement and enhanced market penetration of those companies, which will translate to earnings growth.” Survey Respondent

The majority of respondents (80%) expect African PE returns to compare favourably to African listed equity over the next 10 years. However, some felt that the increased competition in the market, especially on the larger end of the deal scale, might affect returns.

SURVEY RESPONDENTS’ PERCEPTIONS OF THE ATTRACTIVENESS OF DIFFERENT AFRICAN REGIONS



As per the chart above the most respondents didn’t single out a favourite geographic region: More than half stated either that no particular region is more appealing than another, or said that the whole of Sub-Saharan Africa was the most attractive proposition. However, this result was closely followed by West Africa and then Southern Africa as leading sub-regions. The message appears to be that investors are looking more at industry sectors than geography. The continent’s large population and growth of per capita income make it an attractive region for consumer-oriented businesses. The consumer discretionary, financials and consumer staples are seen as the most attractive sectors in the next three years due to a combination of growth areas, capital needs and company valuations. The industrials sector, mining and real estate were considered the least attractive for private equity investment.

“This view is evident in recent deal-flow activity, which has favoured assets positioned to benefit from a growing middle class and lively growth prospects. Added to this, PE fund managers increasingly are broadening their investment mandates to cover regions within the continent, or the entire African continent, rather than single countries,” says Erika van der Merwe, CEO of SAVCA.

POLITICAL RISK TRAILS OTHER FACTORS AS BIGGEST CHALLENGE

The biggest challenge associated with investing in African PE compared to PE in other regions was the limited number of established GPs, followed by a perceived weak exit environment.



“While the perception of political risk is present in Africa, African institutional investors were, however, less concerned with political risk than non-African institutional investors. When considering environmental, social and governance (ESG) factors, institutional investors place a higher importance on governance in Africa than other ESG factors,” says Van der Merwe.

AFRICA-BASED FUNDS PREFERRED

Previously a large number of African investment funds were based in the major financial centres around the world. The institutional investors into PE funds that were surveyed, however, expressed a marked preference for managers based in their primary target market. They also said that regional funds are currently the preferred investment vehicle and 76% are willing to consider managers raising their first fund.

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FOR MORE INFORMATION, PLEASE CONTACT

FOR AVCA: SARA FIROUZYAR/SARAH CADDY

Gong Communications

+44 (0)20 7935 4800 / +44 (0)7766 021351

avca@gongcommunications.com

FOR RISCURA: COURTNEY ELLIS

+27 (0) 21 673 6999

cellis@riscura.com

FOR SAVCA: MARI BLUMENTHAL

H&K Strategies

+27 11 463 2198

mari.blumenthal@hkstrategies.co.za



NOTES TO EDITORS

ABOUT RISCURA

RisCura is a global independent investment adviser and financial analytics provider with specialist expertise in Africa. The company services institutional investors with over USD 200 billion in assets under management, as well as a significant number of asset management, hedge fund and private equity firms.

The company's strengths include independent valuation, risk and performance analysis services to investors, and an exceptional skill for understanding investments in emerging and frontier markets.

www.riscura.com

ABOUT SOUTH AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION (SAVCA)

The South African Venture Capital and Private Equity Association (**SAVCA**) is the industry association representing around 90 private equity fund managers in the private equity and venture capital industry in Southern Africa.

SAVCA was formed in 1998 and its mission is to play a meaningful role in the private equity and venture capital industry by promoting the interests of the industry, lobbying on behalf of the industry, disseminating information and providing research on the industry in South Africa.

www.savca.co.za

ABOUT THE AFRICAN PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION (AVCA)

The African Private Equity and Venture Capital Association's (**AVCA**) mission is to promote and catalyse the private equity and venture capital industry in Africa.

AVCA is a member-supported organisation, with members spanning private equity and venture capital firms, institutional investors, foundations and endowments, international development finance institutions, professional service firms and academia. They are all united by a common purpose: to be part of the African growth story.

Together with a network of experts and collaborators across Africa and beyond, AVCA represents the voice of the pan-African industry in discussions with governments, regulators, lawmakers and the media.

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