Africa's turn?

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For years it was the BRICs that were the talk of the town in investment circles. Brazil was the golden child for emerging market investment for a number of years, and other non-BRIC emerging markets such as Turkey also had their share of time in the spotlight. Now it seems that it is Africa's turn to shine in the world of private equity. It is notable that in EMPEA's Annual Global LP Survey, Sub-Saharan Africa emerged as the leading jurisdiction for investment, with none of the BRICs making the top three. Africa is regarded by many as the last frontier – that is, the last sizeable geographical area of untapped growth in the global economy. In a report published by Riscura, AVCA and SAVCA, stats show that over two thirds of the surveyed LPs believe that Africa is more attractive than other emerging markets.

"The RisCura-AVCA-SAVCA LP survey confirms the swing in sentiment towards Africa, with 85% of LPs surveyed indicating that they plan to lift their exposure to private equity in the continent over the next two years," says Erika van der Merwe, CEO of the Southern African Venture Capital and Private Equity Association.

"This research showed that appetite for African private equity is driven by an expectation of healthy earnings growth, consistent with anticipated lively economic growth rates."

Why Africa?

Africa has a number of key attributes which include a growing middle class of consumers, a young and growing workforce who are increasingly better educated, scalable companies, improvements in infrastructure and connectivity which are easing the challenges and limitations of doing business, along with increasingly stable and transparent political and regulatory environments.

Fundraising

For years Africa has been the byword for the Next Big Thing, but it is only in the last couple of years that we have seen this translate into a successful fundraising market. First time and established fund managers have enthusiastically been raising funds for investment in Africa since the market crisis, but for many it has been a real struggle. Larger funds like Helios have successfully raised impressive amounts of capital in the last few years, but other well-known fund managers, and first time fund managers, have struggled and either not managed to reach a close, or closed at well below their anticipated targets. Whereas prior to and including 2008, funds were exceeding or meeting their targets, in the last three years the average proportion of target size raised at final close has ranged between 75% and 85% according to Preqin's Private Equity April 2014 Spotlight. In 2013 the Preqin statistics showed that $2.6 billion was raised, up on the $2 billion raised in 2012, with largest final closers being Ethos ($800million) and Vital Capital ($350 million). This does not account for first and interim closings of managers such as DPI, Carlyle and Amethis who completed substantial first and interim closes.

2014 is looking to be an exciting year in the African fundraising market, with Carlyle reaching its final close in April of $698 million, $200 million above its initial target. Two other well known fund managers have already closed around $550 million in capital in the first quarter. King & Wood Mallesons SJ Berwin has, in the last four months alone, helped five fund managers focused on Africa reach first closes of nearly $800 million. And there is more to come, with a substantial number of very promising funds currently in the market, including some with targets of $800 million or above.

Investments and Exits

Preqin statistics show that Sub-Saharan Africa has witnessed the largest increase in investment activity for 2013. The number of private equity deals in Africa tripled between 2012 and 2013, according to a recent survey by Deloitte and Africa Assets. This was driven by an increasing number of large deals in the energy sector. However, the question is whether there are sufficient deal opportunities to sustain the increasing interest, particularly at the larger end of the spectrum where deals seem few and far between. The other talking point is exit opportunities. There are a variety of exit opportunities available, including trade sales (most common), secondary buy outs, IPOs and management buybacks. Although there are undoubtedly challenges – which include relatively weak financial markets, limited liquidity of capital markets relative to more developed markets and complex legal and regulatory frameworks – the overall outlook for exits remains positive and a strong pipeline means that this will be an interesting playing field in the next couple of years.

Fundraising statistics are strong with investor confidence in fund managers with deeper track records translating into commitments. Africa has experienced strong economic growth over the last decade and the future prospects across the continent look promising.

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