Deloitte.

SAVCA
SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

Africa Private Equity Confidence Survey 2015

Foreword

Sean McPhee
Leader: Private Equity Group
Deloitte Corporate Finnce

Greg Benjamin
M&A Advisory Leader:
Deloitte Corporate Finance

Deloitte is pleased to present to you the 2015 Africa Private Equity Confidence Survey ("PECS"). This is the first time this survey covers Southern, East and West Africa.

This forward looking survey provides valuable insight into how fellow private equity ("PE") practitioners view the landscape at present as well as their future expectations. Our long standing relationship with SAVCA, the Southern African Venture Capital and Private Equity Association, once again proved invaluable in analysing the industry on the African continent.

The African continent attracts a small proportion of the world's PE money, but interest has grown buoyed by oil and gas discoveries and a growing consumer class. The expectation that emerging markets will generate growth has seen a number of new funds dedicated to investing in Africa.

These expectations are confirmed with an overwhelming majority of respondents across all regions expecting PE activity to increase in the next 12 months.

Investors are optimistic about a favourable economic climate in East Africa but somewhat pessimistic about economic prospects in West Africa, which is expected to struggle on the back of fiscal deficits, declining commodity prices, political instability, security issues and the delayed impact of the Ebola epidemic. In Southern Africa, investors generally expect the economic climate to remain muted.

As is to be expected in an environment characterised by an increased number of suitors, investors expect competition for deals to increase which is expected to drive up entry multiples. The favoured destinations for PE activity are still Kenya, Nigeria and South Africa. The so-called "rise of the African middle class" seems to be the driving force with consumer driven sectors like food and beverages dominating the investment focus for the next 12 months.

The fundraising environment is expected to improve as more success stories emerge from Africa. There is also increased awareness of PE as an asset class, with pension funds opening up to the possibility of investing in PE especially, in East and West Africa. Key challenges faced by PE players continue to be the lack of quality deal flow, human capital deficiencies and the lack of sophistication in portfolio companies.

We would like to thank all the participants who took part in the survey and provided us with a view on what the next 12 months holds for PE in Sub-Saharan Africa.

Sean McPhee, Leader - Private Equity Group
Deloitte Corporate Finance

SAVCA is proud to be associated with the first Deloitte Africa PECS, which reflects fascinating insights into the industry's development across Sub-Saharan Africa.

More and more PE funds are targeting the region, with East and West Africa exhibiting enormous promise. South Africa's vital economic importance to the continent and the Southern African region in particular, is highlighted by the fact that it remains a prime focus for PE investors in 2015.

This survey corroborates the view that opportunity is translating into positive fundraising experiences across the continent. Given evidence of improved familiarity among institutional investors with PE, and the steadfast performance of the asset class, PE fund managers' indicate that they expect the fundraising environment to remain the same or to improve during the course of the next year.

Pension funds, endowments and development finance institutions are the most prominent sources of third-party capital for funds. Institutional investors who participated in the survey indicated that, in the medium term, they expect average annual net returns of between 15% and 20% from regionally focused funds.

With regard to portfolio investments across Southern, East and West Africa, sector trends continue to be consumer-focused, with Southern African PE fund managers recording their interest in the food and beverage sector as well as in manufacturing businesses that have a focus on fast-moving consumer goods. Exporters continue to take advantage of the Rand's weakness, especially those supplying consumer products to the rest of Africa. Healthcare and pharmaceuticals remain a key focus area, offering potentially good returns in 2015.

This general positive trend overrides concerns about macro-economic factors within South Africa, as PE fund managers remain confident of the attractiveness of their home market and in their ability to acquire, manage and dispose of portfolio assets in a way that generates solid returns for investors. The survey confirms that fund managers have a high level of comfort with governance and transparency in portfolio companies. Further, respondents note significant opportunities for doing deals in the Southern African region, even though they perceive that competition for assets is picking up. With a number of PE firms having focused on fundraising in recent years, it follows that the emphasis now shifts to the deployment of that capital, with just over half of Southern African respondents having indicated that they are looking to invest in new assets.

At least half of fund managers expect the Southern African exit environment to improve over the next twelve months, most likely owing to the fact that more buyers are entering the market. It is interesting to observe that over a third of respondents from Southern Africa expect to exit through secondary sales to other PE funds.

SAVCA extends its thanks to all its members who participated in this survey and to Deloitte for their efforts in producing it. High-quality research that provides a deeper understanding of PE in Africa is essential in promoting the development of the asset class in the region. We are confident that this survey will go from strength to strength, marking the continued expansion of PE across the continent – and signifying the value of collaboration amongst all stakeholders in making that possible.

Erika van der Merwe, CEO: Southern African Venture Capital and Private Equity Association

Erika van der Merwe
CEO: Southern African Venture Capital and Private Equity Association

Deloitte in Africa

Our 353 partners and 4,864 professional staff serve clients across the African

Content

Foreword	
Executive summary	2
PECS introduction and methodology	3
Market outlook	4
Economic climate	6
Deal activity	10
Fund raising	22
Exit environment	26
Challenges ahead	30
Contact details	32

Executive Summary

The Deloitte 2015 Africa Private Equity Confidence Survey ("PECS") is a comprehensive snapshot of private equity ("PE") across the continent's three largest economic regions: Southern, East and West Africa.

While South Africa attracts more than half the continent's PE transactional activity due to a combination of market size, ease of doing business and comparatively well-developed financial institutions and governance practices, West and East Africa offer significant growth opportunities.

Investment portfolios across all three regions continue to favour consumer-focussed sectors such as food, beverages and fast moving consumer goods. However, there is a noticeable gap in sentiment between Southern, East and West Africa with investors being more optimistic about economic prospects in the latter two regions.

Competition for deals is expected to increase across all three regions with the likely consequence being asset price inflation. The majority of investors across all regions expect to invest their current funds within four years, with the most favoured time period being between two and four years.

Funds in Southern Africa tend to be larger reflecting the maturity and dominance of the South African PE industry in this region while the size of the East and West African markets is evidenced in smaller fund and transaction sizes.

While South Africa is the dominant source of funding in Southern Africa, respondents in East and West Africa appear to favour Europe and the U.S. for fund raising. Southern African investors appear most concerned about the region's weak macro-economic forcast and the impact this is likely to exert on the PE environment. Those in East and West Africa highlighted the lack of awareness and acceptance of PE as a key challenge.

The majority of respondents across all three regions expect the exit environment to either improve or remain the same with few bracing for deterioration. This is likely due to robust competition for assets, providing sellers with better prospects to achieve their targeted exit price.

For the purposes of clarity, the countries included under the East Africa banner include Burundi, Ethiopia, Kenya, Rwanda, South Sudan, Tanzania and Uganda. West Africa focusses on Benin, Burkina Faso, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. The Southern African region comprises South Africa, Botswana and Namibia (although this will be expanded in coming years to include Zimbabwe, Zambia, Mozambique and Angola).

PECS Introduction and Methodology

The Deloitte Africa Private Equity Confidence Survey ("PECS") provides a consolidated perspective on how private equity ("PE") and Venture Capital ("VC") practitioners view the current landscape and what future expectations are for Southern, East and West Africa.

The African continent is becoming an increasingly attractive investment destination for private equity players looking to access its high-growth economies and rapidly emerging consumer class. This is underscored by the recent announcement by the Dubai-based Abraaj Group, which oversees $9 billion across several emerging markets, that it had raised $990 million for its third Sub-Saharan Africa fund. Approximately 64% of the capital committed to the Abraaj Africa Fund III came from Europe and North America with institutional investors, pension funds and sovereign wealth funds accounting for 76% of the fund.

PE funds from the continent are also beginning to flex their muscles, both in Africa and other parts of the world. Brait's purchase of an 80% stake in Virgin Active from Richard Branson's Virgin Group for £682m ($1bn) is a recent example. Although almost half of Virgin Active's 267 outlets are in South Africa the health club chain has a presence in eight other countries, providing considerable international exposure.

It is this growing appeal and international visibility of the African PE landscape that has prompted Deloitte to compile a comprehensive view of the asset class across the continent. Drawing on our experience in compiling the East Africa Private Equity Confidence Survey, which Deloitte has produced for the past four years, the consolidated Africa PECS provides key insights into how the asset class is developing in the continent's major economic hubs.

The survey was conducted by leveraging the Deloitte Africa-wide network in the following regions:

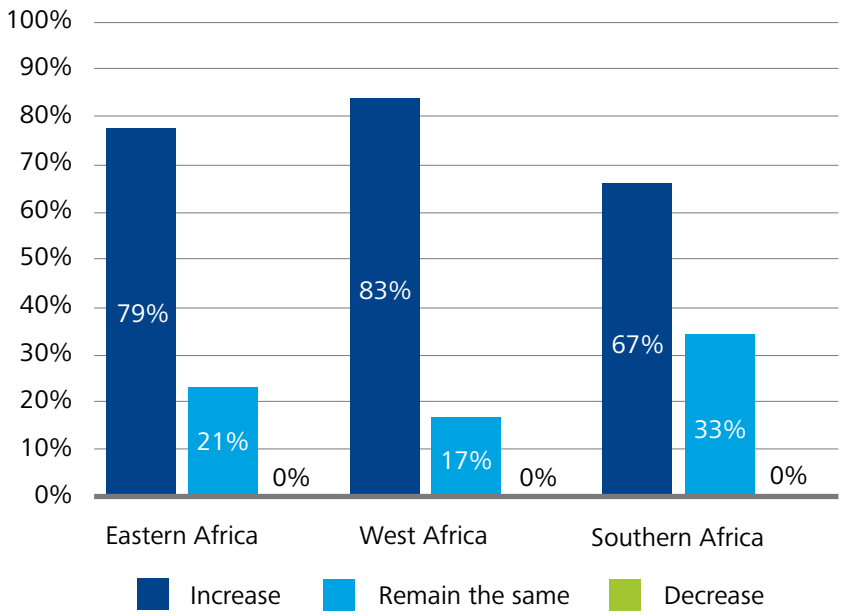
Participants in the survey were polled between December 2014 and February 2015 with General Partners ("GPs") in the three above-mentioned regions being the primary contributors. We received 117 detailed responses including eight Limited Partners ("LPs"). While the number of responses from LPs was too small from which to draw conclusions, we have included some of their insights for the edification of our readers.

Although questions were similar to our previous surveys, there was greater emphasis on region-specific themes such as the PE Market Outlook, Economic Climate, Deal Activity, Fundraising Environment, Exit Environment and Challenges faced by PE players in each of the three key markets.

1. Market Outlook

Overall PE Activity

(Fig. 1.1) Over the next twelve months, I expect overall PE market activity to:



The majority of respondents expect PE activity in Africa to increase, particularly in East and West Africa, owing to greater awareness of PE as an asset class as well as the ever expanding base of PE players.

This attraction is driven by strong macro-economic fundamentals, rising consumer spending from a growing middle class and improvements in political governance. Some respondents indicated that the constrained nature of debt financing could make PE a more viable option for companies looking to fund expansion.

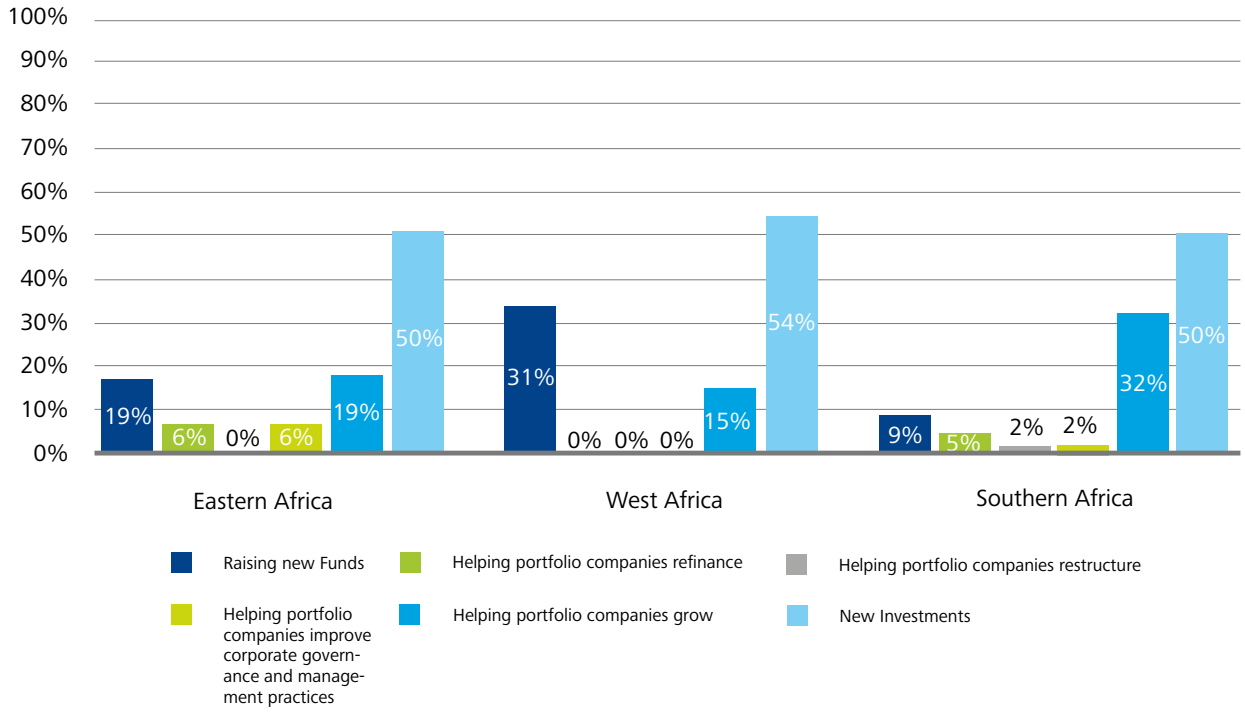
The overwhelming majority of West African respondents expect overall PE activity in the region to increase. This is largely driven by sentiment in Nigeria, the continent's largest and most populous economy.

The sheer scale of Nigeria's importance to West Africa is underscored by its estimated 180 million strong population as well as the rebasing of its economy in April last year, which resulted in it overtaking South Africa as the continent's biggest economy.

While Nigeria's PE market is still relatively immature compared to South Africa, its potential is enormous. The fact that an overwhelming 83% of West African respondents expect PE activity to increase in the next year is a clear sign of the growing confidence in the asset class in this part of the continent.

Past 12 months Focus Area

(Fig1.2) Over the past twelve months, we have spent the majority of our time on:



In Southern Africa, 32% of the respondents indicated they had spent the past 12 months helping portfolio companies grow with only 9% focussed on raising new funds.

In East and West Africa, 19% and 31% respectively indicated that they spent the past year raising new funds. The raising of new funds is driven by both pull factors and push factors. These push factors include global cash chasing yield while the pull factors are related to some of these economies representing a higher yield based on economic growth.

It is clear from Fig. 1.2 that respondents across all regions have been heavily focussed on acquiring new assets, a factor that will inevitably affect competition for assets and thus pricing going forward as the competition for assets increases. South Africa-based funds including the likes of Metier and Carlyle had already raised substantial funds by the time the survey was conducted, thus supporting the notion that they would be preparing to deploy that capital into new investments.

The 31% of West African respondents that indicated a focus on raising new funds is an indication that PE is maturing in that market.

2. Economic Climate

Sub-Saharan Africa (SSA)

According to the World Bank, SSA's economy grew 4.5% in 2014 compared to 4.2% in 2013 spurred by expanding investment in public infrastructure, increased agriculture production and a robust services sector.

The pace of expansion was, however, slower in many of the larger economies such as Ghana, Kenya and South Africa as a result of subdued global demand, softening commodity prices, weak foreign direct investment (FDI) flows, low business confidence and capacity shortages.

The International Monetary Fund (IMF) lowered its 2015 economic growth forecast for SSA to 4.5% in April from an earlier estimate of 5.8% on the back of falling oil prices, which are expected to curb output in Nigeria, the region's biggest economy and its largest crude exporter. That is still higher than the IMF's global economic growth projection of 3.5% for this year.

East Africa

East African economies are expected to continue registering growth this year driven largely by public investment in infrastructure, growth in services and agriculture as well as improving political stability (notwithstanding recent terrorist attacks in Kenya). Inflation levels across the region are generally expected to remain within the country targets helped by low oil prices.

The region's overall economic performance will largely depend on the performance of its most dynamic economy, Kenya. A Bloomberg survey of economists ranked Kenya at position three among the likely top 20 fastest growing economies across the globe in 2015. The only other African country to make the list was Nigeria in sixth place.

According to the IMF, real GDP growth in 2015 is expected to increase across the region, led by the likes of the Ethiopia (8.5%), Tanzania (7%), Rwanda (6.7%), Uganda (6.3%) and Kenya (6.2%).

West Africa

A World Bank analysis of the economic impact of the Ebola epidemic in West Africa anticipates that the virus will continue to stifle the economies of Guinea, Liberia and Sierra Leone even as transmission rates in the three countries show significant signs of slowing.

The IMF this year lowered Nigeria's 2015 economic growth forecast to 4.8%, from a previous estimate of 7.3% in October 2014, following the sharp decline in oil prices which have plunged by more than 50% since June 2014, curbing the nation's revenue and investment plans. A report conducted in October 2014 by the Wall Street Journal showed that Nigeria requires an oil price of about $119 a barrel to balance its budget. Compared to current crude prices of around $60 a barrel.

Ghana's economy is expected to expand by 4.7% in 2015, according to the IMF which is significantly lower than the 14.4% in 2010 when Ghana became an oil exporter. Economic expansion gradually tempered to a more moderate, but still respectable 7.1% as recently as 2013 thanks to continued gold, cocoa and oil exports. Ghana's economic growth reduced to 4.5% in 2014 as commodity prices fell and the budget deficit spiraled in response to lower revenues from commodity exports. This prompted credit rating downgrades while the Cedi lost a third of its value against the dollar in 2014, eventually forcing Ghana to secure a $1bn loan from the IMF in February 2015 in a bid to revive its economy.

Southern Africa

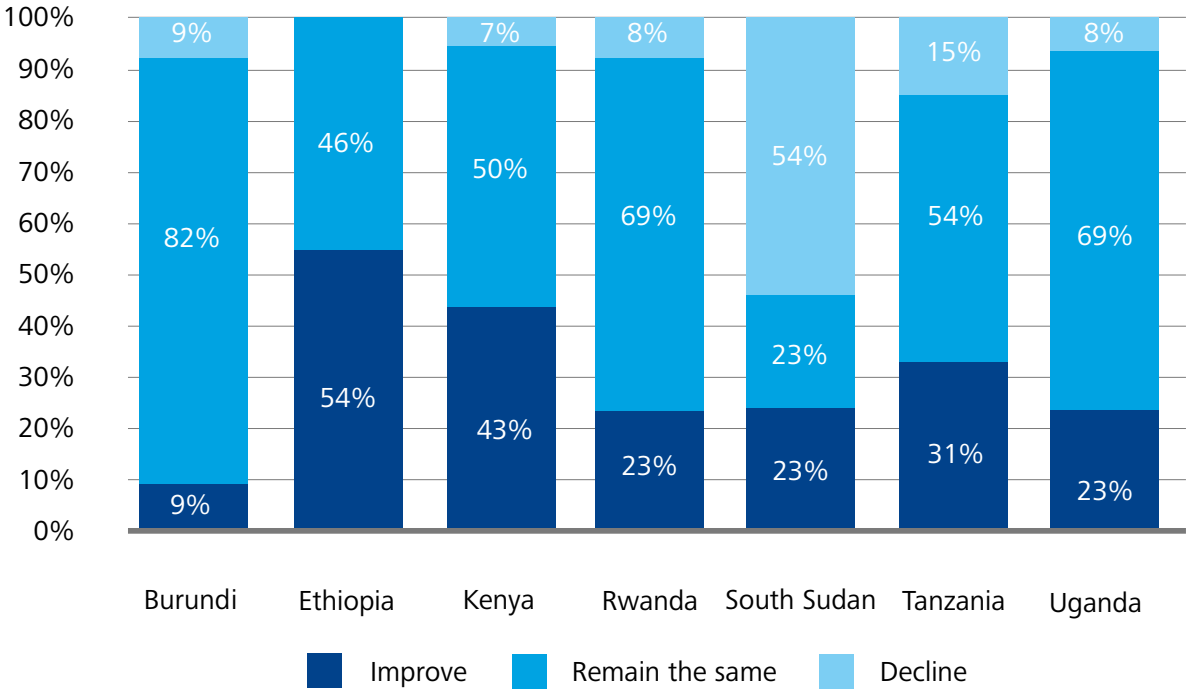
In his first budget speech since taking office, South African Finance Minister Nhlanhla Nene was forced to lower his economic growth forecast to 2% in February this year, down from an initial estimate of 2.5% in October 2014. That came after GDP expanded by 1.5% in 2014, the slowest pace since 2009 when South Africa suffered a recession post global financial crisis. South Africa's disproportionate economic weight in this region can be discerned in the similarly subdued economic confidence in the rest of Southern Africa.

Insights from PE Firms

"These increasingly politically stable markets present compelling prospects for investments in high-growth, mid-market companies, driven by strong macro-economic fundamentals that are stimulating rising consumer spend."

East Africa economic outlook

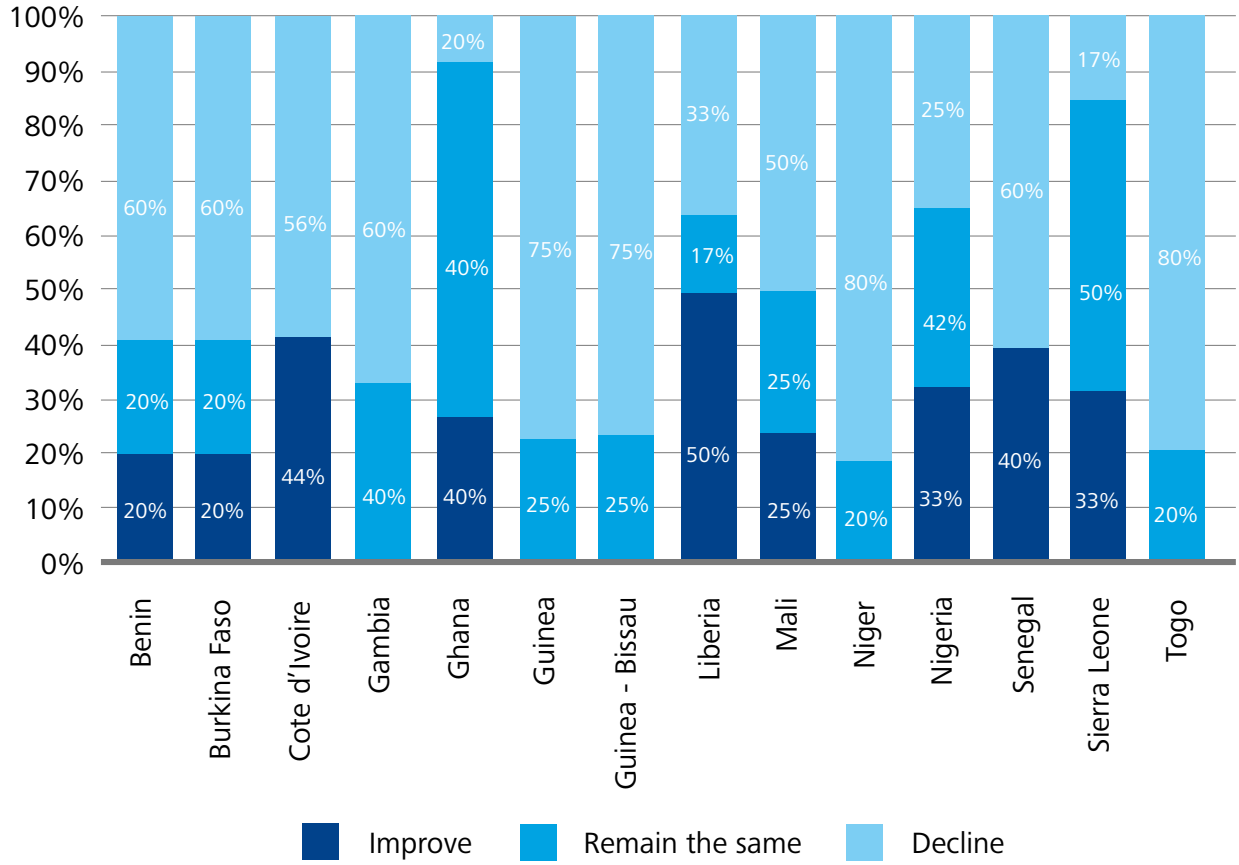
(Fig. 2.1) Over the next 12 months, we expect the overall economic climate to:



PE investors in East Africa are most optimistic about Ethiopia and Kenya. Approximately 54% of respondents expect economic conditions in Ethiopia to improve in the next year. That's in line with IMF forecasts that Ethiopia's economy will grow by 8.5% in 2015, up from 8.2% the previous year. Despite being classified as a low income country, Ethiopia's impressive population size of approximately 96.5 million (the second most populous nation in Africa) makes it an attractive consumer play. Although its PE market remains relatively underexplored it may offer immense opportunity in coming years. Nevertheless, government restrictions on foreign exchange make it difficult to get capital out of the country, which could temper investor interest in the country. South Sudan has significant negative sentiment towards its economic outlook over the next 12 months, most likely due to ongoing political instability in the country. This contrasts with IMF predictions that South Sudan's economy will grow by 19% this year, albeit compared to a 12.3% contraction in 2014.

West Africa economic outlook

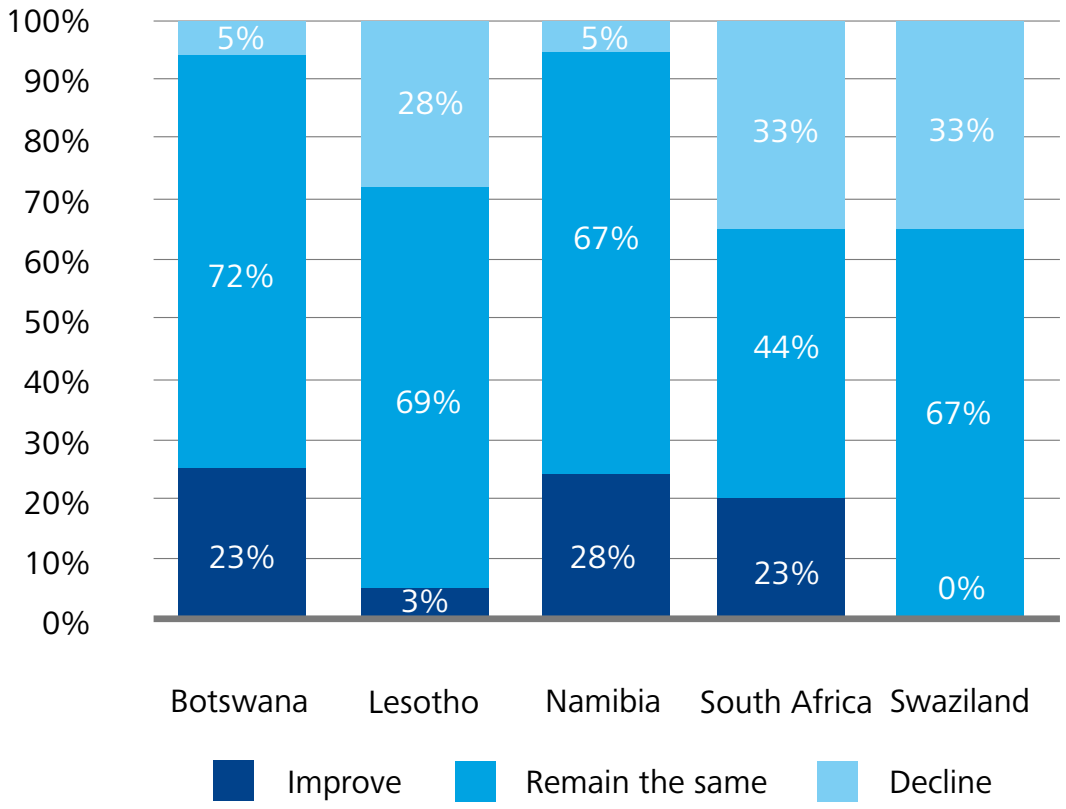
(Fig. 2.2) Over the next 12 months, we expect the overall economic climate to:



West Africa presents a mixed bag in terms of expectations for the economy over the next 12 months. Nigeria continues to be fairly attractive with 33% of respondents expecting economic conditions in the country to improve in the next year while 42% anticipate no change and only 25% expecting a decline. Ghana and Sierra Leone are mostly expected to either improve or remain the same while half of respondents predict that conditions in Liberia will improve. A further 44% and 40% anticipate an improvement in economic conditions in Cote d'Ivoire and Senegal respectively. Investors are largely pessimistic about economic prospects in Togo, Niger, Guinea, Guinea-Bissau, Gambia, Burkina Faso and Benin. This is most likely due to the combined effect of fiscal deficits, declining commodity prices, political instability and security issues as well as the impact of the Ebola epidemic, which resulted in travel bans and widespread public health crises across the region.

Southern Africa economic outlook

(Fig. 2.3) Over the next 12 months, we expect the overall economic climate to:

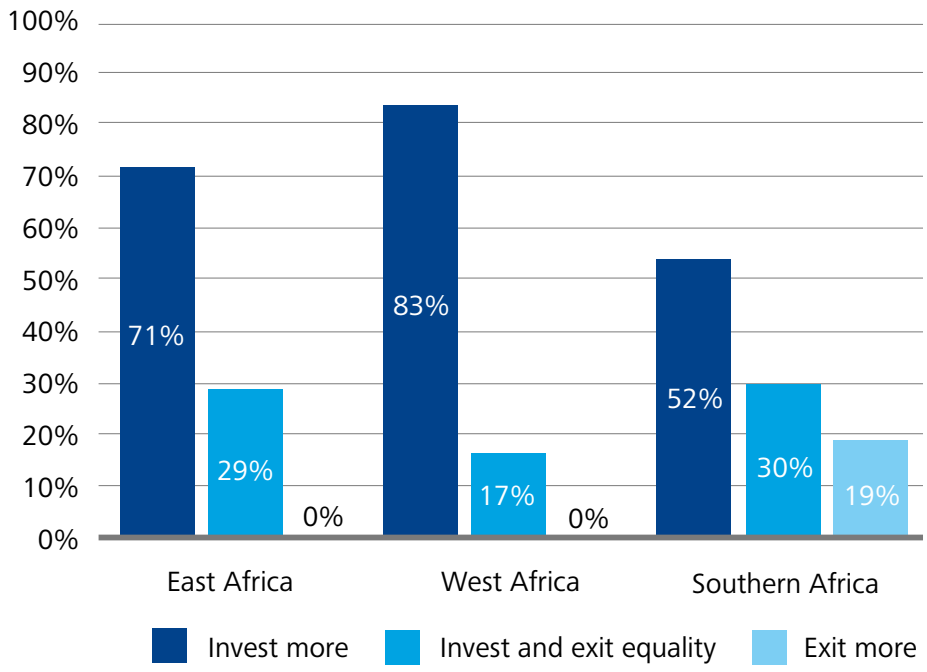


The sub-par economic growth performance of South Africa, the region's economic powerhouse, appears to have rubbed off on its neighbours. A third of investors expect economic conditions to decline in both South Africa and Swaziland in the next year while the bulk of respondents also predict that the business climate will either remain the same or deteriorate in Namibia, Lesotho and Botswana. Depressed commodity prices, ongoing labour unrest and persistent electricity constraints in South Africa are seen as the major downside risks to an economic recovery in this region.

3. Deal Activity

Investment Readiness

(Fig. 3.1) Over the next 12 months, we expect to:



Southern African respondents that expect to exit more indicated that this was due to portfolio specific reasons, such as the majority of their investments having reached maturity. Just over half of total respondents expect to buy more due to the fact that they had recently completed fund raising or had been focused more on selling in previous years and are now looking to invest despite the negative view on the economic climate in the short term. This could merely be a symptom of the investment cycle as funds that are coming to a natural end, or funds that have already been extended, seek to exit.

PE players in East and West Africa expect to invest substantially more in 2015 which coupled with the fact that no respondents expect to exit more, highlights the fact that these markets are comparatively less mature than Southern Africa. Interestingly, 29% of East African respondents expect to invest and exit equally in 2015, compared to 5% in 2014.

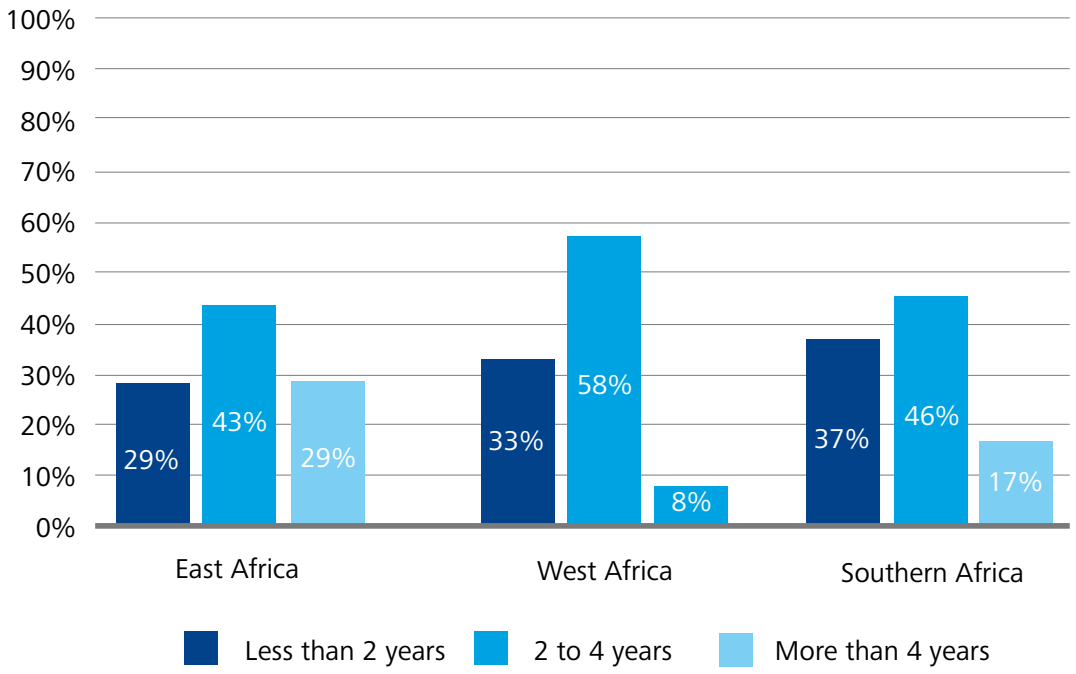
Insights from PE Firms

"We are mainly investing at this stage due to the young age of some of our investment funds."

"Our fund is in investment mode and portfolio companies are not seasoned enough for exiting."

Fund Investment Time Period

(Fig. 3.2) We expect the time it will take to invest our current fund:



The majority of investors expect to invest their current funds within four years, with the most favoured time period being between two and four years. This is consistent with the typical PE life cycle as funds will look to deploy cash early in the fund life cycle to enjoy the full benefit of time. With the poor returns currently being generated on cash there is incentive to deploy cash into investments sooner rather than later.

Insights from PE Firms

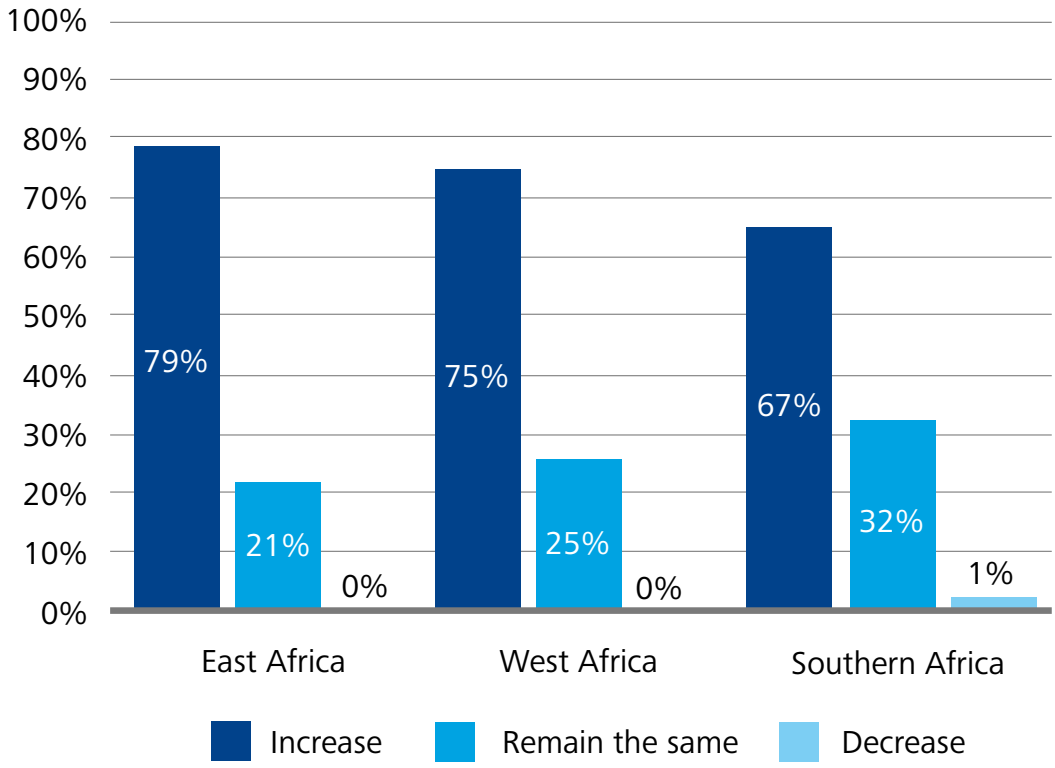
"We are investing our current fund and although we're in the process of exiting the previous fund, we expect to buy more than we sell."

"We have focused the last three years on selling and are now looking to deploy capital."

"Increased level of deal flow with generally better quality deals than in the recent past, both from PE firms exiting and companies introducing financial shareholders into the business;"

Competition for Assets

(Fig. 3.3) Over the next 12 months, we expect competition for new investment opportunities in the region to:



Competition for deals is expected to increase across all three regions, reflecting that PE funds are in the cycle of deploying of capital. Respondents indicated that expectations of increased competition in the PE space was mainly due to greater capital availability (following the rise in the number of PE players, such as the entry of large funds like Carlyle) as well as greater awareness of PE as an asset class, particularly in East and West Africa. The most likely outcome of this competition would be increased asset prices, which is also likely to affect corporate transactions across these regions.

Insights from PE Firms

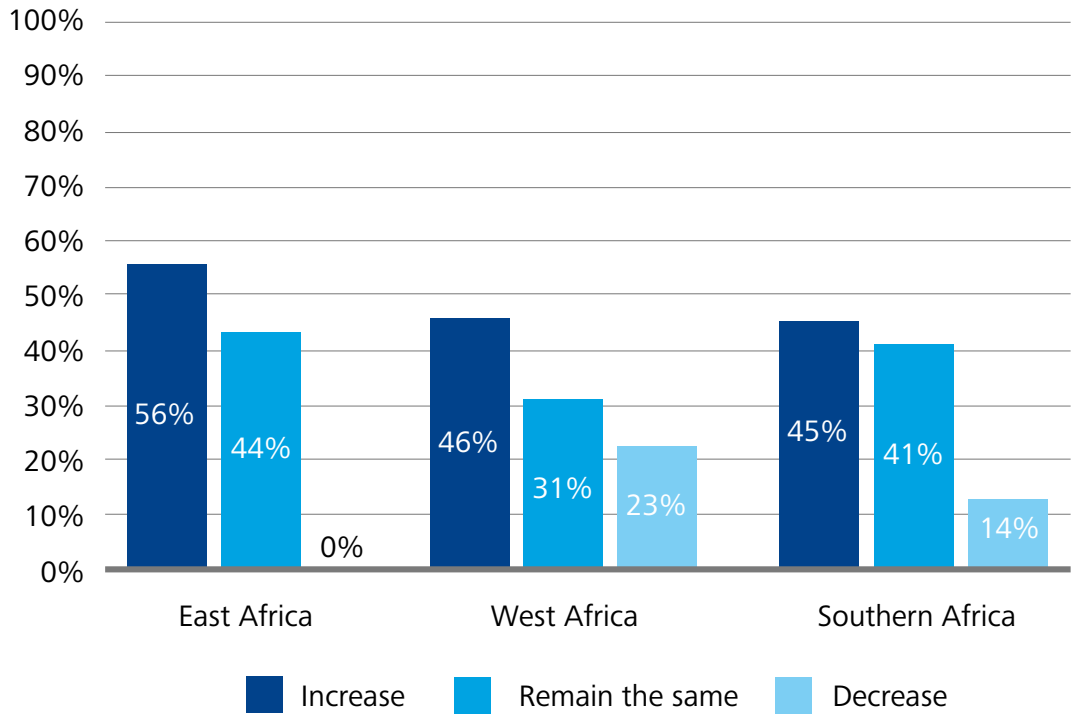
"Increased number of PE players and more awareness of PE as an asset class."

"Too much money needing to find a home and not enough deals of scale to support quantum of capital raised."

"There is increased competition for PE Investors driven by a number of international PE Firms increasingly active on the continent, as well as a number of local firms being in deployment phase of their latest funds."

Entry Multiples

(Fig. 3.4) Over the next 12 months, we expect entry multiples on transactions in our region to:



Surprisingly, while investors expect competition for deals to intensify over the next 12 months, a fairly sizeable proportion across all three regions feel that entry multiples on transactions will remain the same with 23% of West African respondents and 14% from Southern Africa anticipating a decrease. In East Africa, 56% of respondents expect an increase, down from 60% and 86% in 2014 and 2013 respectively. The somewhat negative outlook on entry multiples in West Africa may be due to the combined impact of the Ebola virus, the slump in oil prices, fiscal deficits, political instability and currency weakness. Both the Nigerian Naira and Ghanaian Cedi have suffered significant depreciation since the beginning of last year which may have prompted investors to anticipate lower asset prices, particularly from the point of view of foreign capital looking to secure a foothold in the region. By contrast, the Southern African outlook is most likely a symptom of the weak economic growth outlook in that region. Speculation that the performance of listed stocks in the region may cool in response to weaker commodity prices, a possible U.S. interest rate hike later in the year and China's economic slowdown may also be tempering seller expectations in Southern Africa.

Insights from PE Firms

"Lots of new funds are looking for deals as well as a pickup in corporate M&A."

"There is a lot of capital chasing a limited number of quality deals, driving prices up significantly."

"Record high listed markets are being used as a proxy for PE deals, but this is not always supported by the business fundamentals or indeed the general economic environment. This can lead to unreasonable price expectations and less attractive entry multiples for buyers."

Country Focus

In East Africa, the core countries of the East African Community ("EAC") - namely Kenya, Uganda and Tanzania - remain the focal point of investment with Kenya retaining first place. A sizeable 44% of East African respondents indicated that they are looking at additional opportunities in markets outside of East Africa and are intending on venturing into Nigeria in West Africa and Zimbabwe and Malawi in Southern Africa.

Nigeria is the favoured PE investment destination in West Africa, owing to its status as Africa's biggest and most populous economy as well as its many investment opportunities. We expect this will continue until a mature PE market exists in Nigeria. Ghana was ranked second despite facing economic headwinds in the form of softer commodity prices, budget deficits and a weaker currency.

South Africa, Africa's second biggest economy, was ranked as the Southern African country investors would focus on most in 2015. Despite facing sub-par economic growth and a nationwide electricity shortage, South Africa remains a traditional hub for PE players given the maturity of its market. The Deloitte Global Venture Capital Confidence Survey conducted between May and June 2014 with the support of the U.S. National Venture Capital Association ("NVCA") showed that South African PE investors remain confident in the attractiveness of their home market despite misgivings about the economy. Only Singapore (3.67) was ranked ahead of South Africa (3.5), which was matched by Brazil (3.5), when local investors were asked to rank their market's attractiveness for PE on a scale of 1 to 5, with a higher value indicating greater appeal. That put South Africa ahead of the likes of India and the US (both 3.25), Germany (3.14), Australia and China (3), the UK (2.88) and Japan (2.5). The generally positive view among South Africans of their domestic PE prospects was matched by the assessment of global investors who ranked the country's PE appeal at 3.27, just behind China at 3.28 and not far behind the top-ranked U.S. at 3.78.

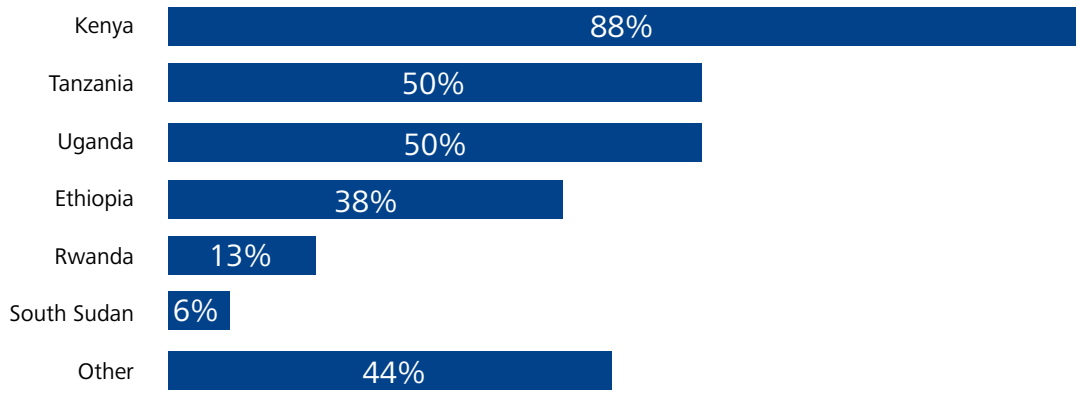
"As the PE landscape deepens in the region, and more capital is available for a limited deal universe, it is expected that the competition will increase."

Nevertheless, investors are rapidly shifting focus to Nigeria, with the West African region having seen some of the biggest PE deals in 2014. Some of the region's flagship PE deals over the last number of years involved the likes of African Capital Alliance, Helios Investment Partners and Carlyle Group in Nigeria while Ghana attracted interest from Vantage Capital, TLG Capital and Duet PE.

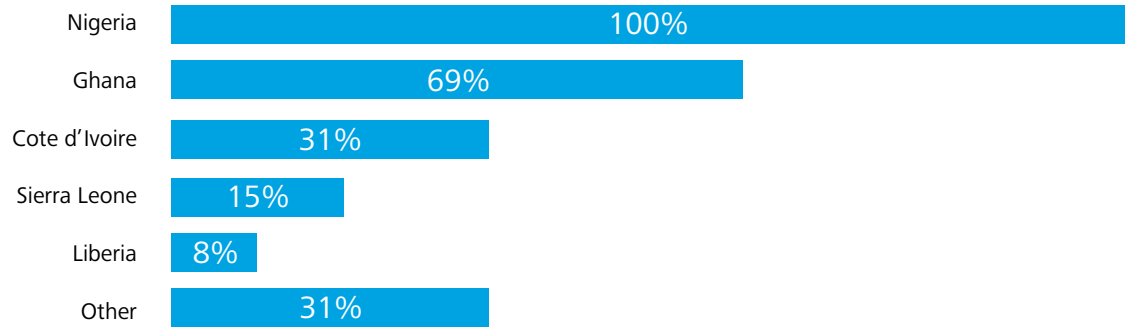
The strong performance of Kenya, Nigeria and South Africa (as well as Ghana, albeit to a lesser extent), reflects the economic importance of these countries to their respective regions. Ethiopia also emerged as an increasingly attractive investment destination thanks to the large consumer potential presented by the country's 96.5 million people. A better performance may be expected in Ethiopia in coming years if it is able to improve its attractiveness to investors by easing capital controls, relaxing indigenisation regulations and improving its information and telecommunication infrastructure.

(Fig. 3.5) In case the focus will be on new investments, we expect to invest in the following countries in the next 12 months:

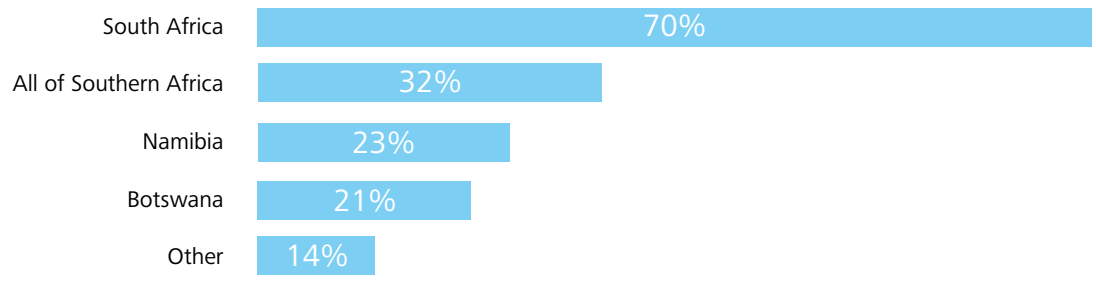
East Africa



West Africa

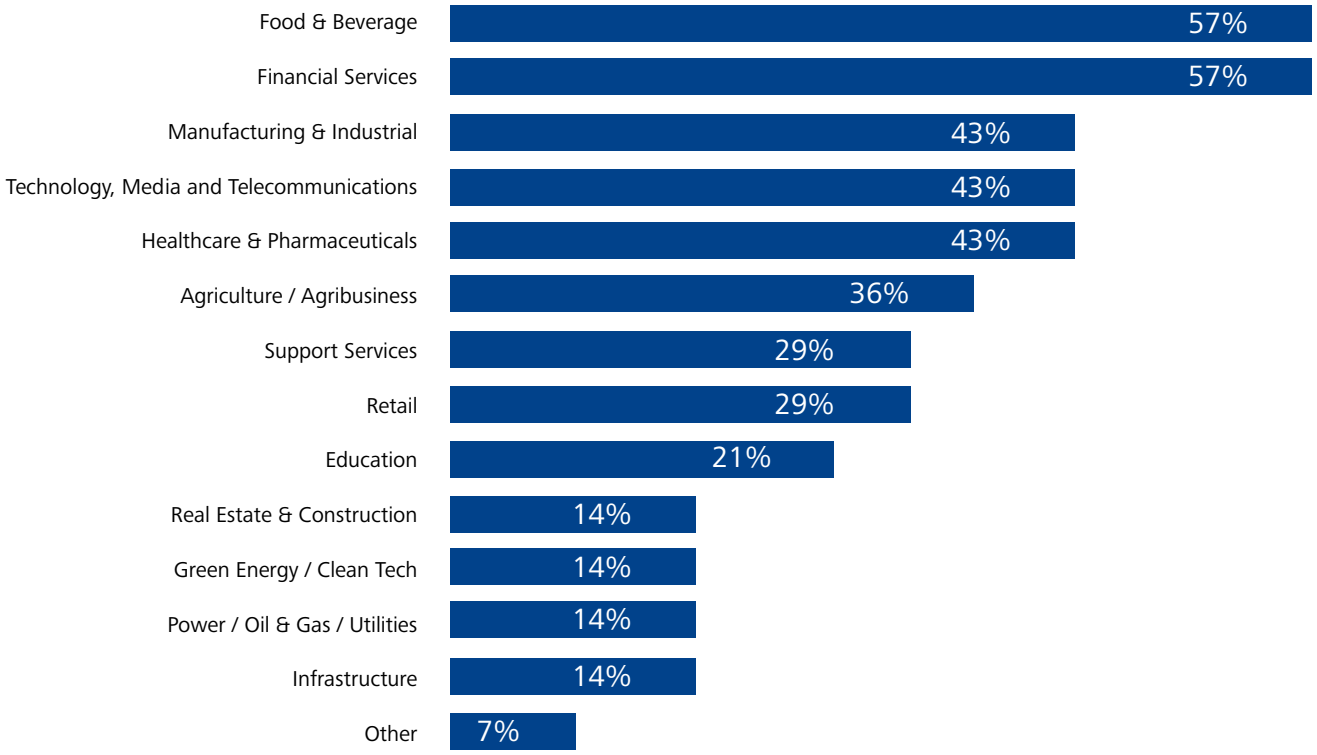


Southern Africa



Sector Focus: East Africa

(Fig. 3.6) In the next 12 months we expect to focus on opportunities in the following sector(s):



East African investors will focus on the consumer driven sectors of food & beverages, financial services and manufacturing in 2015. Various M&A deals were seen last year in the East African insurance sector, which is viewed as under-developed with high growth potential. Although a number of banking licenses have been issued in this region, the sector is dominated by three large players with the remaining lenders being marginal to moderate performers at best. This is likely to present opportunities for PE investors looking to deploy cash in East Africa's financial services sector. As more people in this region, and indeed the rest of the continent, migrate to the middle-class so too will capital focussed on tapping into consumer driven economies.

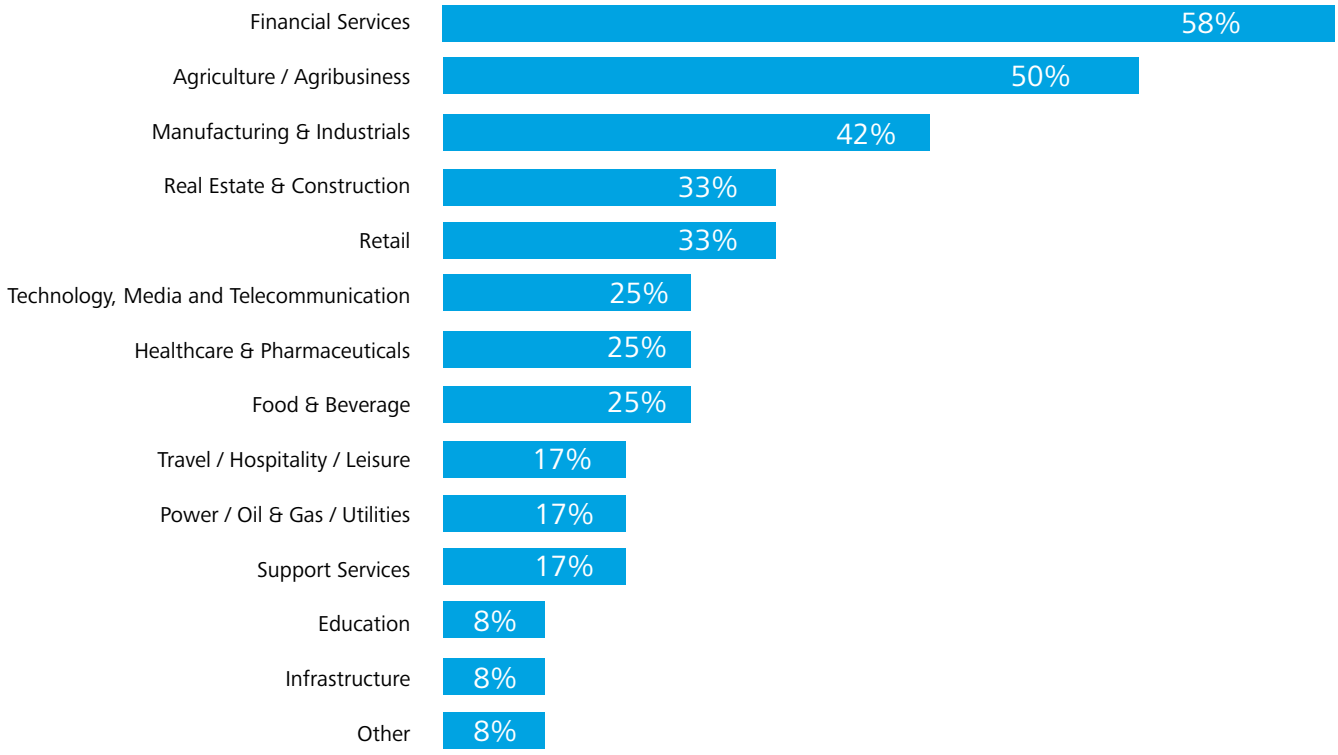
Manufacturing opportunities have long been favourites for PE investors due to their values often being underpinned by assets that can be leveraged and used as security. This also provides a barrier to entry from would be competitors and operations can often be scaled up in order to extract greater value from the assets at work. Manufacturing is the one common investment focus among all three territories polled.

At number four on the list of attractive sectors is Technology, Media & Telecommunications. This may in part be linked to the Kenyan government's so-called "silicon savannah" strategy to position the country as Africa's technology hub. This includes the $14.5 billion Konza Techno City development which aims to create 100,000 jobs by 2020. Interest in earlier stage investments is also beginning to increase.

Recent M&A activity in 2014 was marked by the exit of Essar Telecom (which sold its infrastructure to Safaricom and subscriber base to Airtel). Interest in the sector is fuelled by surging growth in the popularity of digital media and technology in East Africa, particularly in Kenya. Despite Kenya being ranked as the second largest retail market in Africa after South Africa, this sector was not ranked highly as a focus area for PE investors in East Africa. Still, there is investment in the overall retail value chain such as logistics. The relatively low attractiveness of infrastructure to PE investors in the region is unsurprising given the scale and time taken to unlock value in such projects, which are typically the domain of government and Development Finance Institutions (DFIs), although some PE funds have been established in order to target this asset class. The infrastructure space in East Africa does hold future promise with governments beginning to hire professional transaction advisors to structure transactions. There is also some investment in infrastructure support services.

Sector Focus: West Africa

(Fig. 3.7) In the next 12 months, we expect to focus on opportunities in the following sector(s):



Similar to East Africa, West African investors will focus on consumer driven sectors in 2015. The financial services sector in West Africa, specifically Nigeria, has witnessed heightened M&A activity in recent years on the back of good profitability. The insurance sector in particular is viewed as attractive with low insurance penetration rates offering significant market opportunities if insurance perceptions are changed. Moreover, many financial services companies including insurance companies, in the region are under capitalised, presenting an obvious opportunity for PE funds looking to acquire assets in this market. The focus on consumer driven sectors is in line with the widely acclaimed rise of the middle class in Africa, with rising disposable income in Africa expected to result in demand across various sectors. A report released by Deloitte at the end of last year titled "Africa: A 21st Century View" indicates that Africa's middle class is expected to increase to more than half a billion people by 2030, with the continent's middle class defined as those earning between $2 and $20 per day.

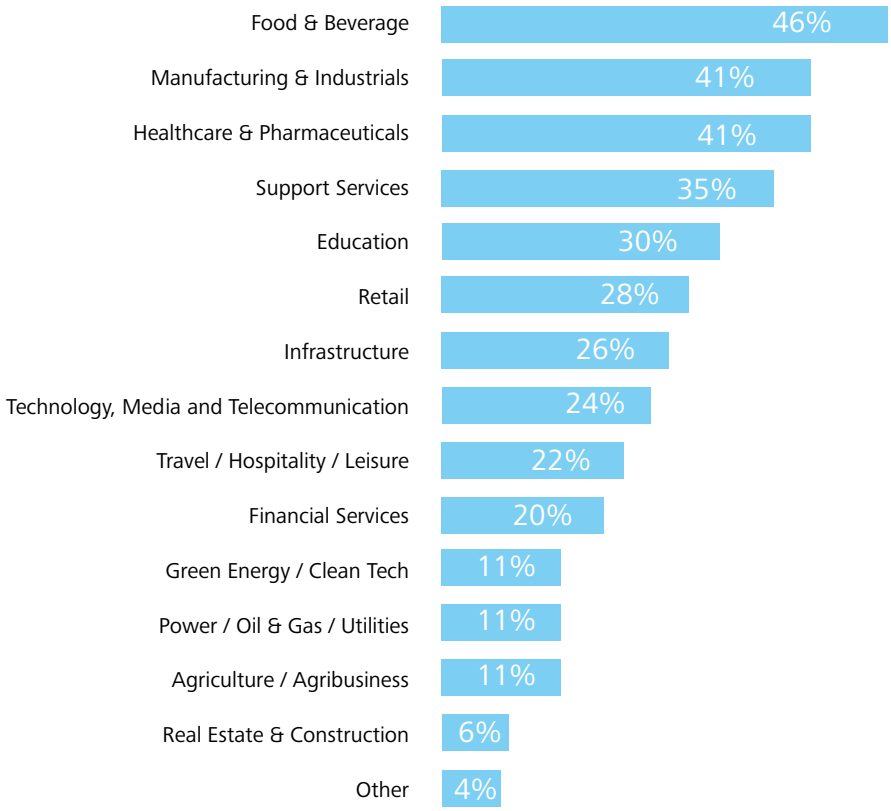
Real estate was also identified as a key focus sector for PE investors in West Africa in 2015, due to the region's fast-growing population, increasing urbanisation and lack of local financing options which is likely to drive demand for both residential and commercial property sufficiently enough to make returns attractive to PE funds. Agriculture was the second most popular with 50% of respondents saying it would be a focus area in the next 12 months. The farming sector remains poorly developed in this region despite huge consumer potential and the fact that Nigeria, the major economy in West Africa, imports the majority of its food requirements.

For the Nigerian real estate sector, the interest is mostly driven by a large and growing population, a wide housing gap especially in the urban areas and mega cities like Lagos. There is also increasing interest in western style commercial/retail properties such as the shopping malls, improving business and legal environment and of course higher rates of return when compared to other developed economies.

On the other hand, the increasing interest in the agriculture sector is largely driven by government's incentives geared towards encouraging private sector involvement such as generous tax incentives. In addition various innovations have been introduced into the sector by the current administration. According to a report by the National Bureau of Statistics, the agricultural sector contributed 22.07% to Nigeria's nominal GDP in Q4 of 2014 while real estate contributed 9.30% in nominal terms.

Sector Focus: Southern Africa

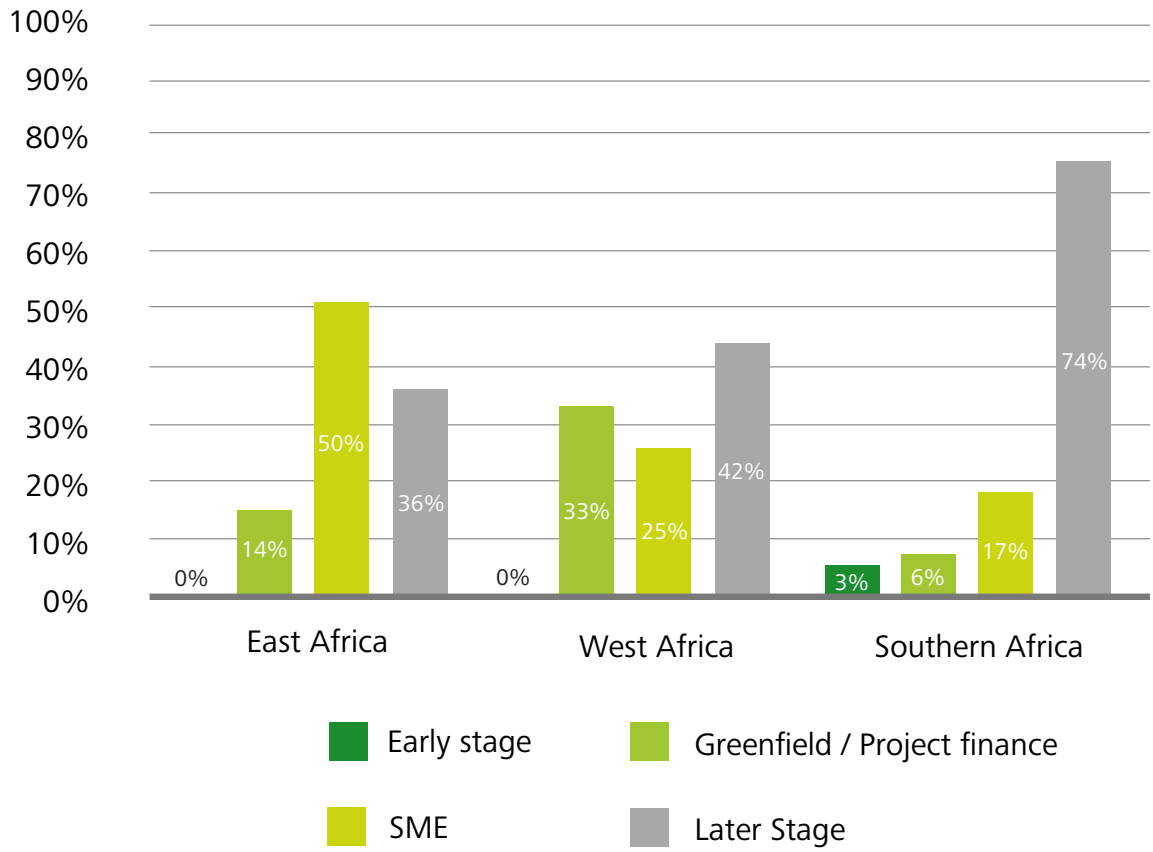
(Fig. 3.8) In the next 12 months, we expect to focus on opportunities in the following sector(s):



Continuing the consumer focussed themes highlighted by respondents in East and West Africa, the focus in 2015 among Southern African PE investors will also be in food & beverages and manufacturing. While the focus on manufacturing may come as somewhat of a surprise given the widespread electricity supply issues in the region and South Africa's struggle to remain globally competitive, it stands to reason that activity in this area would likely be dominated by the production of fast moving consumer goods. This is especially true for South Africa, where the Rand's continued weakness has acted as a boon for exporters, particularly those focussed on supplying consumer products to the rest of Africa. Healthcare and pharmaceuticals remains a key focus sector in Africa. Both these sectors are widely believed to have huge potential in Southern Africa given the poor reputation of public healthcare in the region as well as the generally fragmented private healthcare sector outside of South Africa.

Company Life Stage Focus

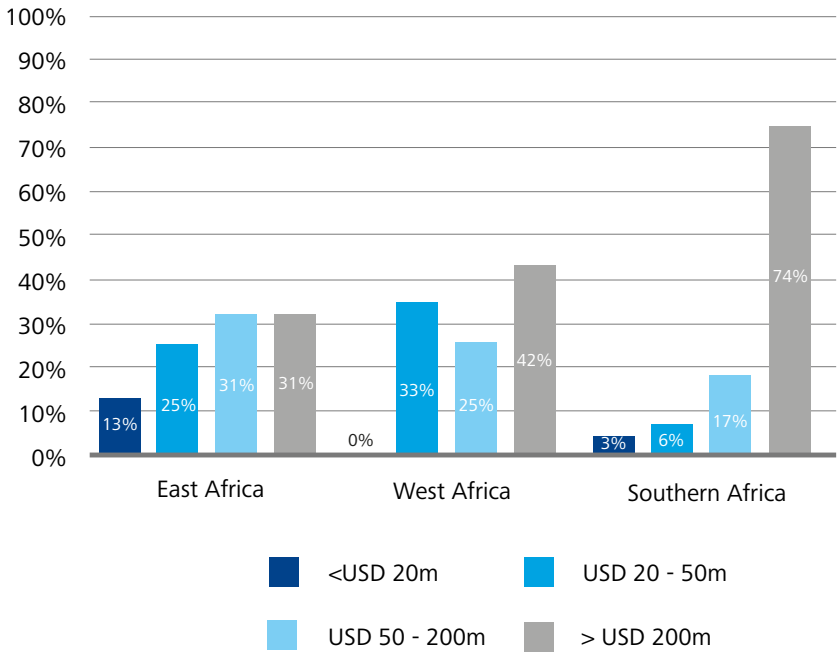
(Fig. 3.9) In the next 12 months, we expect to target the following companies:



Venture Capital is still a very immature industry in Africa even though government incentives have been put in place to try stimulate growth in this area of the economy. In East Africa market opportunities dictate investment opportunities and as a result Small Medium Enterprises are the larger focus. In West Africa with the PE industry being more immature, additional risk will be sought by taking on greenfield/project finance opportunities but the investment term later on restricts this ability as they are rarely two year investments. In Southern Africa later stage investments will continue to attract investment as mature businesses with strong predictable cash flows remain a prerequisite for the leveraged buyout (LBO) model.

Total Size of Fund Managed

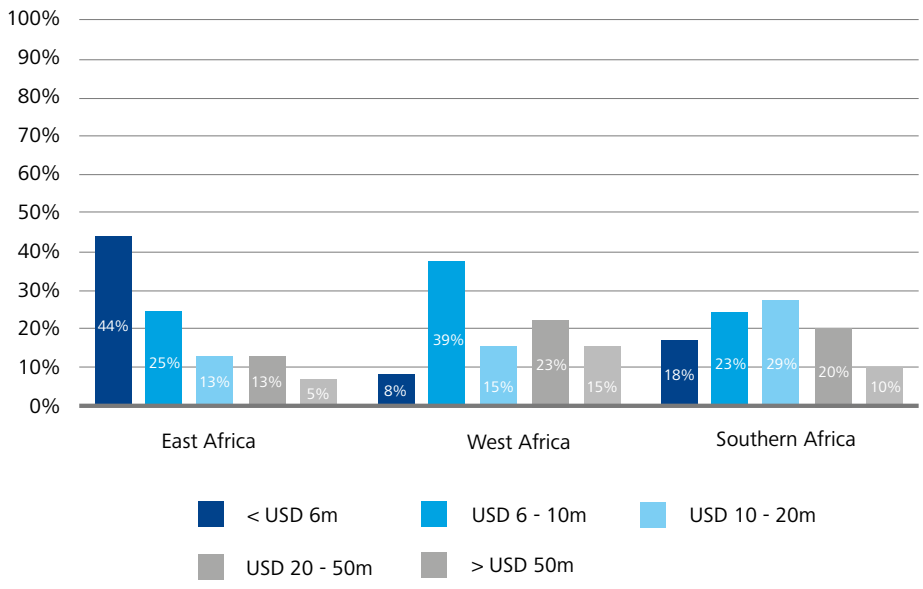
(Fig. 3.10) The total size of the fund we manage is:



The majority of funds in the Southern Africa market are valued at more than $200 million, reflecting the comparative size of the large South African PE industry in this region. East and West African markets are more immature and chase smaller transactions and so fund sizes would be expected to be smaller.

Investment Focus

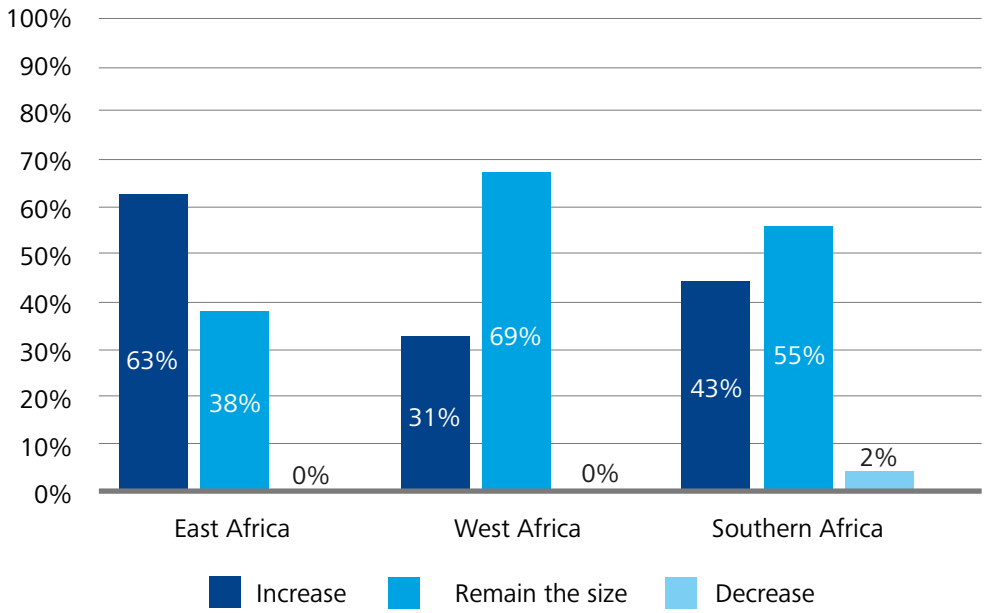
(Fig. 3.11) Our investment focus per transaction is:



Investors in East Africa favour transactions of less than $6 million in 2015, which is in line with the relatively smaller size of funds in this region and market opportunities. There will be larger ticket sizes in Southern and West Africa. In Southern Africa, almost half of all investors will target later stage companies priced at between $10 million and $50 million.

Transaction sizes

(Fig. 3.12) Over the next 12 months, we expect the average size of transactions in our region to:



Transaction sizes are expected to increase in East Africa in 2015 with respondents putting this down to the combined effect of the increase in capital looking for a home due to the entry of large funds in the region coupled with the expected increase in access to debt financing for transactions. In West and Southern Africa deal sizes are expected to remain the same in 2015.

Insights from PE Firms

"We have raised new funds with larger investment tickets."

"More large buyout funds are entering the market."

"Combination of follow-on investments in existing portfolio companies and conversion of larger transactions in emerging businesses with more upbeat growth, expansion and consolidation aspirations."

"There are a larger number of SMEs that are entering at later stages than previous years. They will on average be requiring bigger amounts in order to fund their growth."

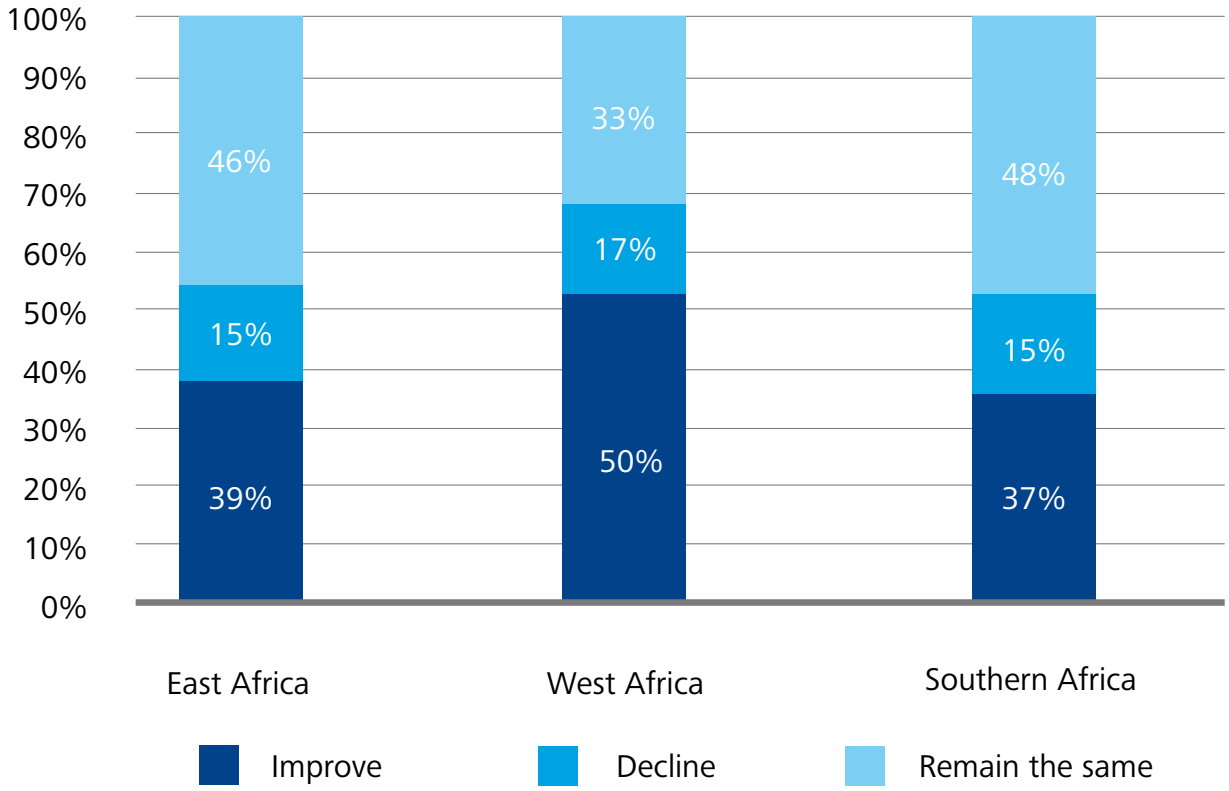
"Focus on quality businesses which justify paying premium prices."

"Buoyant equity markets, more competition from GPs, especially foreign entrants."

4. Fund Raising

Fundraising Environment

(Fig. 4.1) Over the next 12 months, the fundraising environment for PE will:



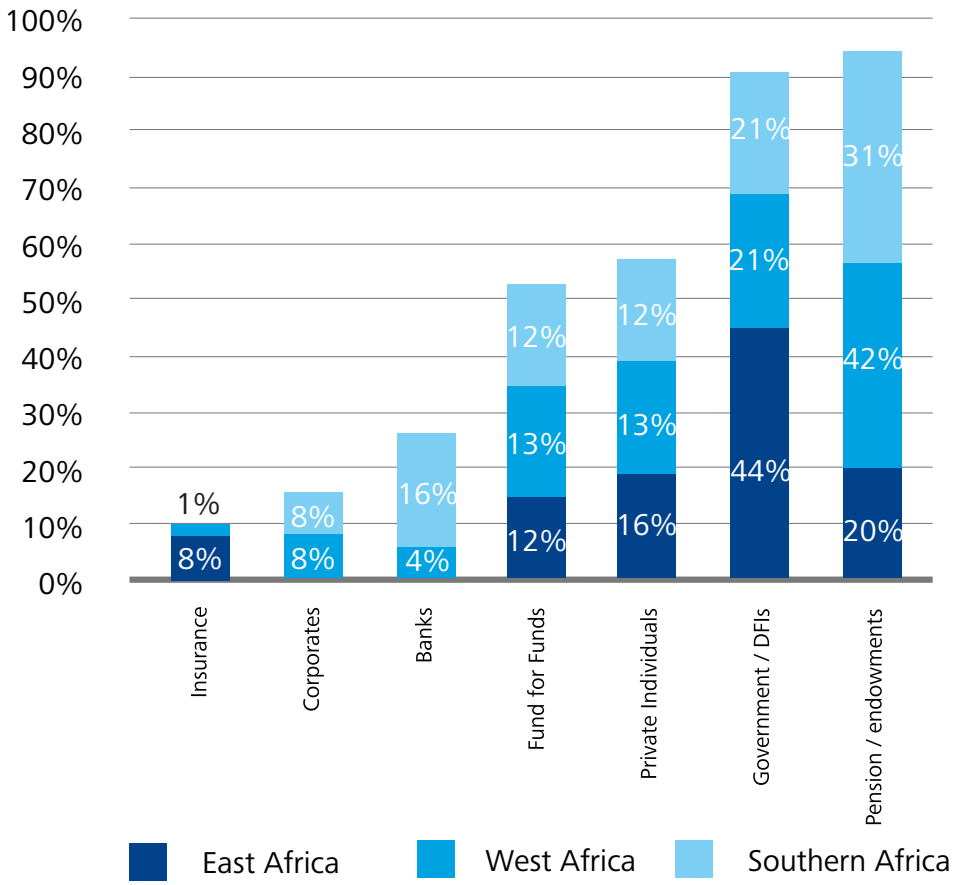
Investors in the regions expect the fundraising environment to either remain the same or improve over the next 12 months supported by improved LP familiarity and strong performance of African assets compared to those in other emerging markets.

A significant number of PE investors in East and Southern Africa expect the fundraising environment to remain the same. Respondents indicated that despite greater interest in the two regions, the number of managers raising funding is also continuing to increase, leading to greater competition for funds from a limited pool of available capital.

In West Africa, most investors expect the PE environment to improve or remain the same over the next 12 months rather than decline. Respondents indicated that the lack of growth in developed economies, coupled with increased competition for assets in those markets, is forcing investors to look to new growth regions such as West Africa for investment opportunities.

Sources of Funding

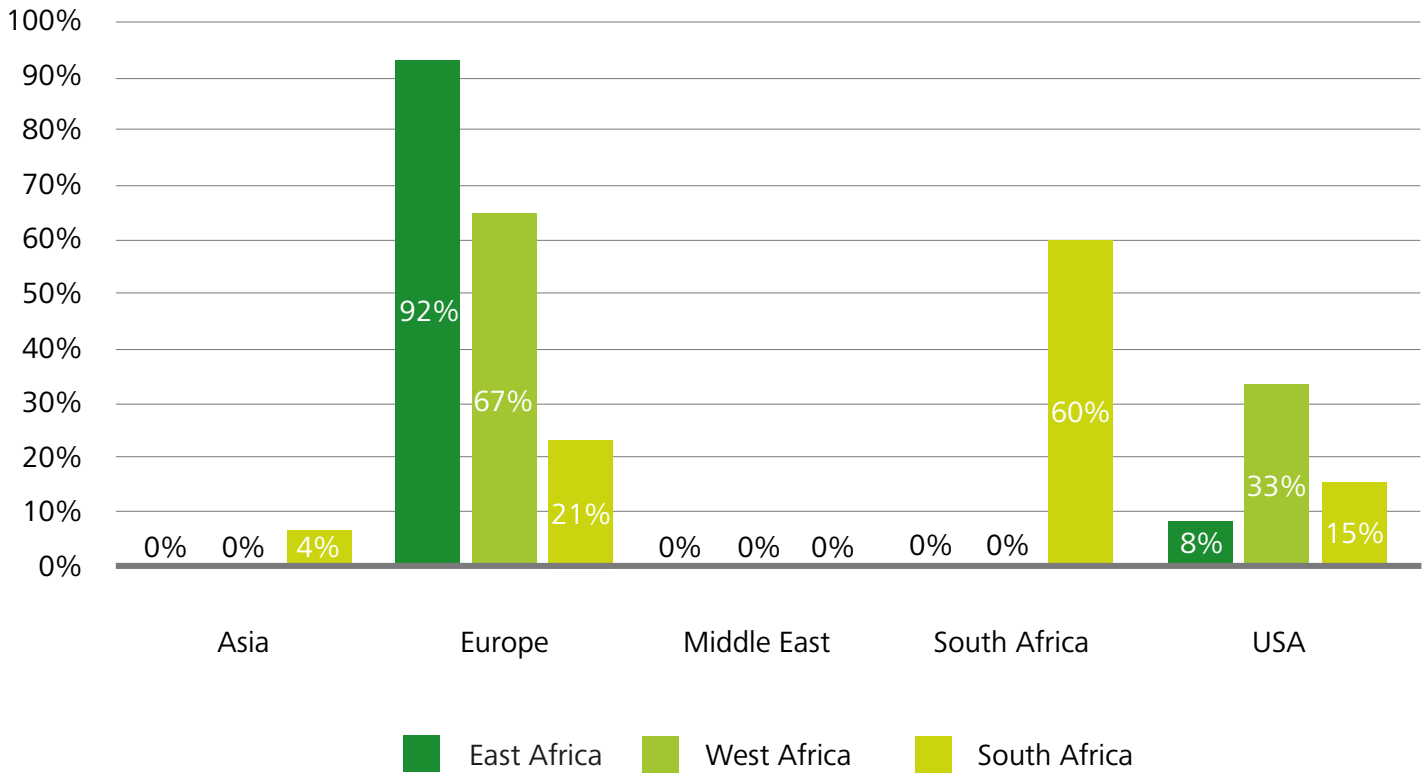
(Fig. 4.2) If you intend to raise funds within the next 12 months, which source of third party funding would you raise capital from?



The most popular source of third party funding is pensions/endowments followed by DFIs, although in East Africa the reverse is true. East African investors indicated that a general lack of awareness of PE as an asset class, coupled with regulation, was to blame for the apprehension exhibited by pension funds when faced with the prospect of investing in the sector.

Capital Raising: Geographical Source

(Fig. 4.3) If you intended to raise funds within the next 12 months, which geographic source would you raise capital from?



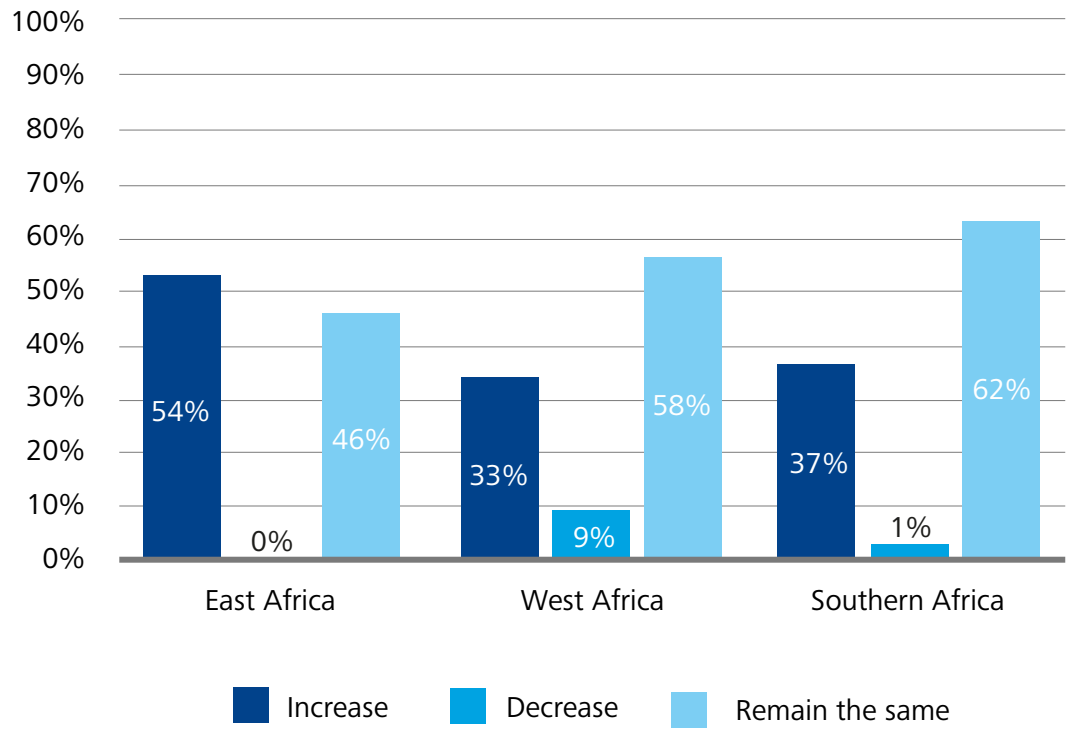
The majority of respondents in East and West Africa stated that they would seek funding from Europe as their first choice followed by the U.S. The fact that South Africa is not a favoured source of funding for East and West African respondents may provide an opportunity for South African based LPs in the future. The implication is that all the available funding for transactions driven by East and West African respondents is originating from outside of the continent. By contrast, the picture in Southern Africa is vastly different with South Africa seen as the most likely source of a majority of the funding by respondents in that region.

Insights from PE Firms

"Given the rush of fundraising by PE funds focused in the region, we expect further deployment of capital towards transactions as PE investors rush to quickly deploy their expensive capital into new deals."

Debt Finance

(Fig. 4.4) Over the next 12 months I expect access to debt finance for transactions to:



Respondents in East Africa expect the debt capital markets to improve and have a greater access to debt funding in order to execute transactions in the next twelve months. West and South African respondents largely expect access to debt funding to remain the same although a material portion being 33% and 37% respectively also expect access to debt funding to improve.

Insights from PE Firms

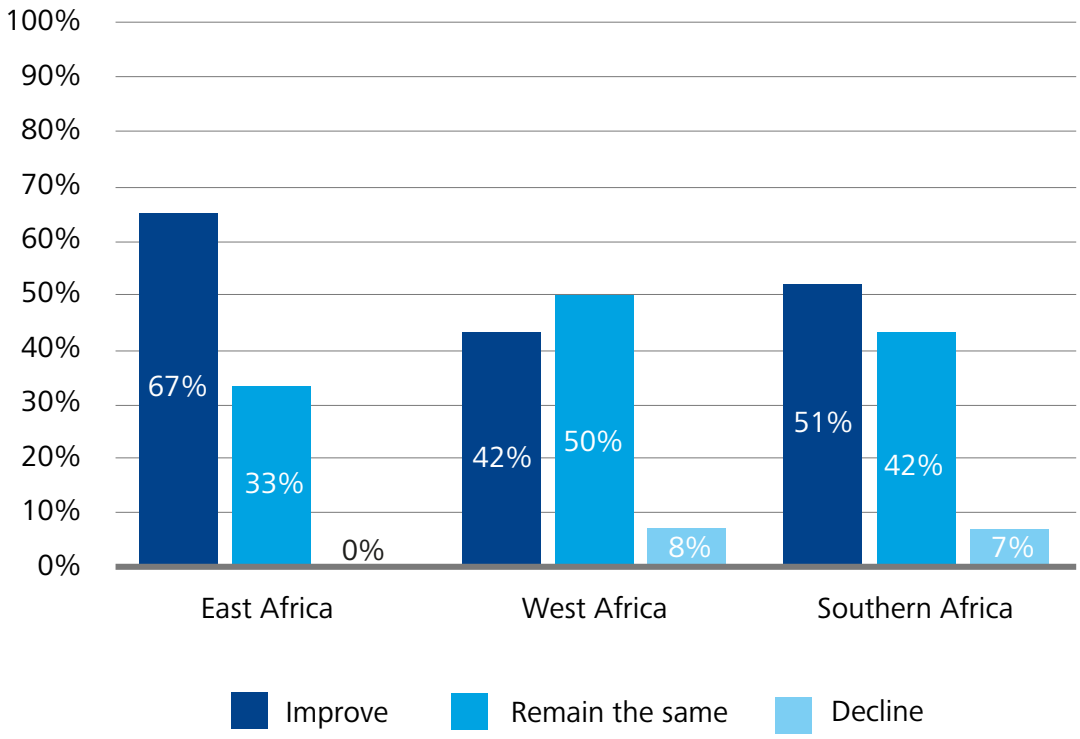
"Increasing availability and more attractive pricing of debt leads to buyers paying up, expecting to use the increased gearing to still get attractive returns."

"Banks and other financial institutions are willing and able to lend more aggressively."

5. Exit Environment

Exit Environment

(Fig. 5.1) During the next 12 months, we expect the exit environment in the region to:



In Southern Africa, 51% of respondents expect the exit environment to improve over the next 12 months. According to some, the scarcity of attractive PE targets suggests that exits will be somewhat easier, especially with moderate valuation multiples given current economic pressures. Moreover, a great deal of capital has been raised for purchases in the rest of Africa and needs to be deployed, some in secondary transactions. However, 8% of Southern African respondents were pessimistic and expect the exit environment to worsen. The poor economic climate in South Africa was highlighted as the main reason for this sentiment.

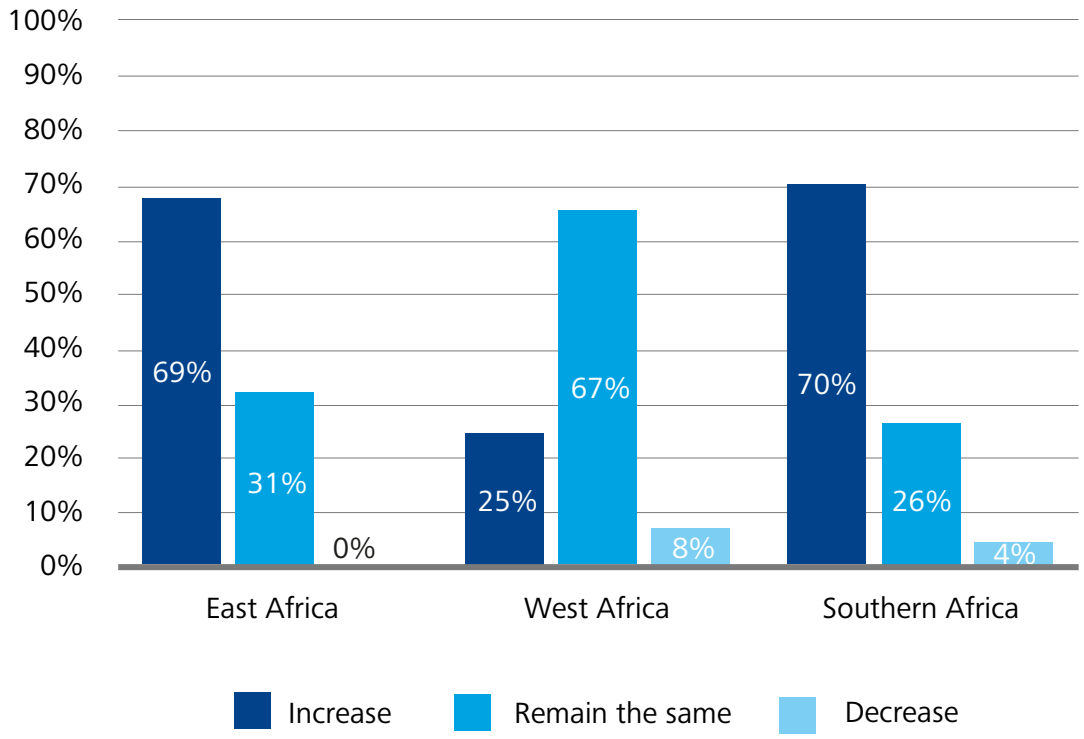
In East Africa, 67% of respondents expect the exit environment to improve over the next 12 months due to greater interest from local, regional and transnational secondary buyers and trade buyers. Some respondents indicated that several new funds have raised substantial amounts of money and plan to specifically target Africa. Some of this money is likely to target exits from existing funds.

In West Africa, 50% of respondents expect the exit environment to remain the same over the next 12 months, although 42% anticipate an improvement. Some respondents indicated that their investments were still in the early stages of their lifecycles with the preference being to hold on to assets so that they can add value to portfolios before being offloaded. As a result, only 25% of respondents expect the volume of exits to increase in West Africa.

The generally favourable view of the exit environment across all three regions is probably due to the fact that with so much competition for assets on the continent at present, sellers are more likely to achieve their target prices should they choose to exit an investment.

Exit Volumes

(Fig. 5.2) During the next 12 months, we expect the volume of exits to:



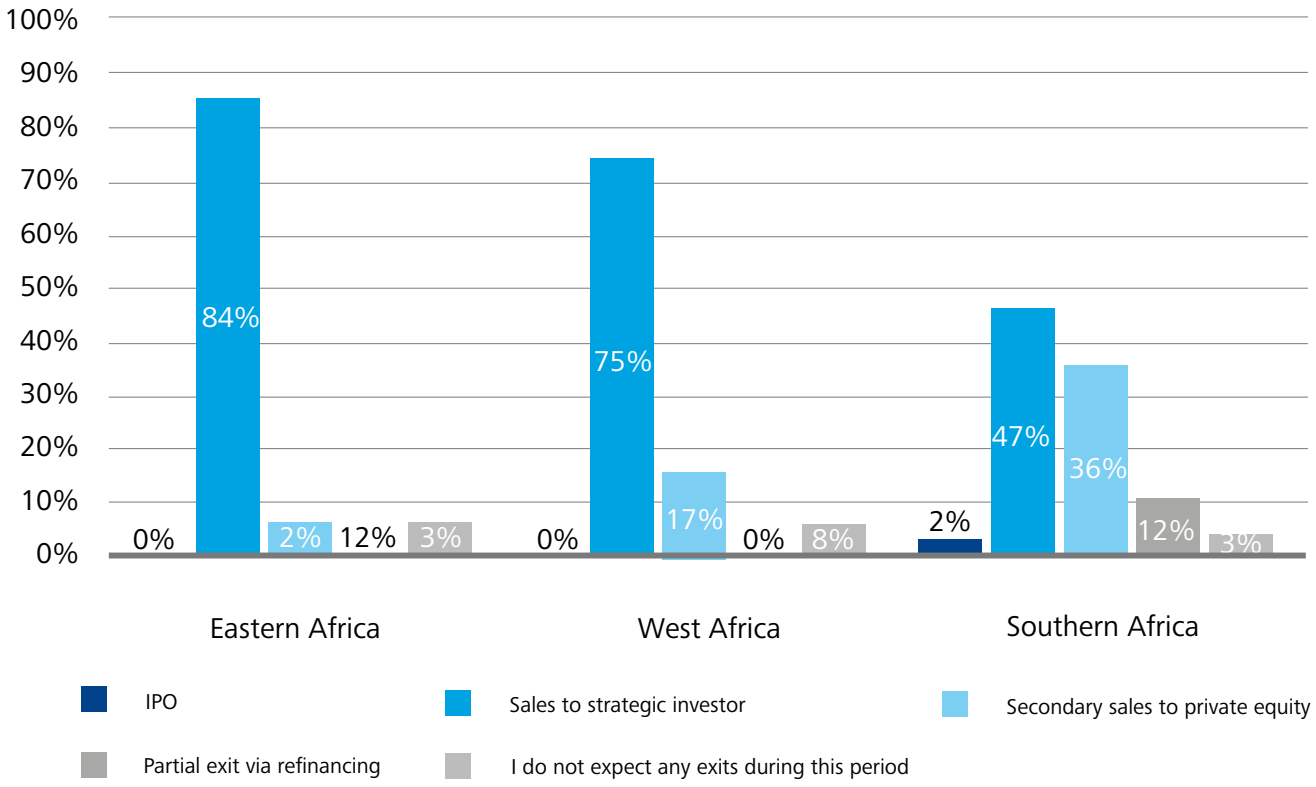
The most dominant exit routes across Africa are sales to strategic investors followed by secondary sales to other PE funds. IPOs as a mechanism for PE investors to exit their investments does not appear to be a favoured option in any of the regions surveyed and has historically not been so this remains consistent. Respondents indicated that this was due to the plethora of strategic buyers on the continent looking to gain market share or market entry into new jurisdictions, suggesting that they are less sensitive to price than financial buyers. While 1.9% of Southern African respondents would consider IPOs as an exit route, those in East and West Africa believe this is less probable due to the lack of sophistication of capital markets in their regions.

Insights from PE Firms

"Not all exits are secondary PE deals, but successful PE deals tend to lend themselves to secondary PE exits."

Exit Routes

(Fig. 5.3) During the next 12 months, we expect the following exit routes to be most dominant in our region:



In Southern Africa, 36% of respondents expect to exit via secondary sales to other PE firms, an indication of the fact that the industry in this region is more developed and mature. Partial exit of existing investments through refinancing is also seen as a likely option, mainly due to the maturity of the debt capital markets in the region.

Insights from PE Firms

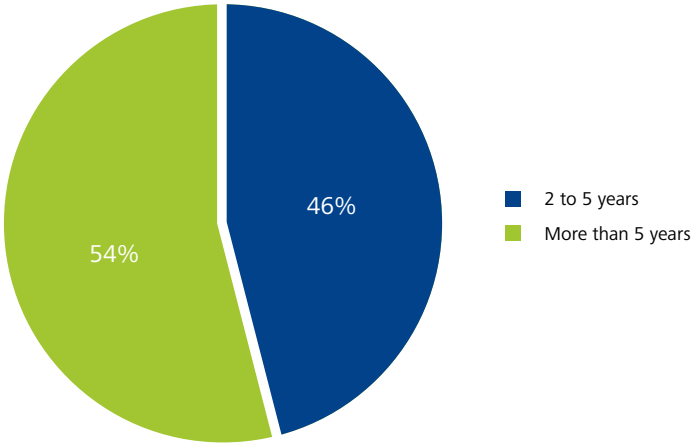
"Buoyant listed equity markets, providing fertile ground for IPO's and at the same time opportunities for shareholders to exit at these high levels through delisting."

"The markets are not liquid enough for IPOs and as regional integration takes shape, strategic investors are taking more interest."

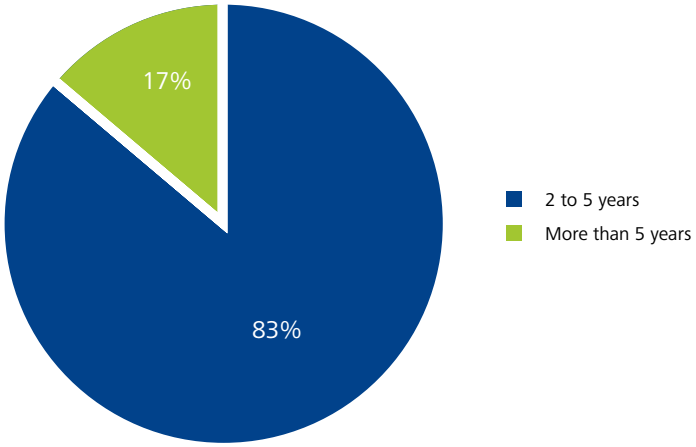
Average lifecycle

(Fig. 5.4) We expect the average lifecycle from initial investment to exit for investments made in the current year to be:

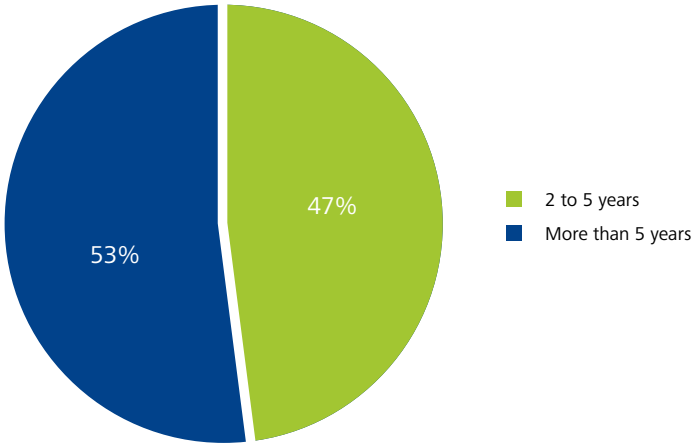
East Africa



West Africa



Southern Africa

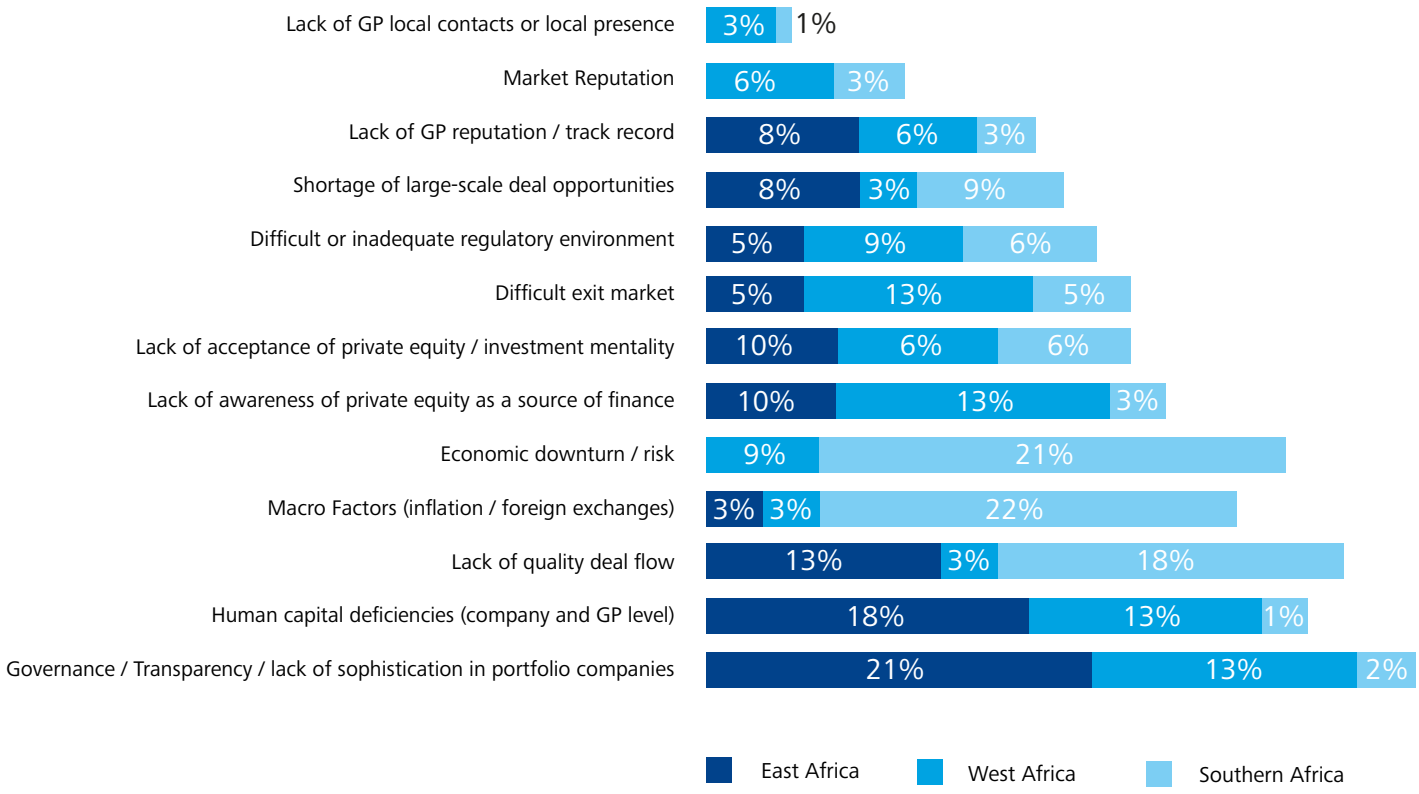


In East Africa, 54% of respondents expect the average lifecycle from initial investment to exit to be more than five years. This is a decrease from 67% in last year's survey. In West and Southern Africa, 83% and 53% of the respondents respectively expect the average lifecycle of a PE investment to be between two and five years. This is an indication of the investment opportunities that are available and the risk appetite of LPs and GPs in providing longer term funding.

6. Challenges Ahead

Biggest Challenges and Barriers to Growth

(Fig. 6.1) What are your biggest challenges and barriers to grow?



Similar to previous survey findings, investors are most concerned about the lack of quality deal flow, governance and transparency issues at company level and human capital deficiencies both at GP and company level.

Southern Africa

Southern African investors are notably concerned about macro-economic factors such as inflation and foreign exchange fluctuations as well as a general economic downturn, both of which would impact the PE market. The lack of quality deal flow was also identified as a challenge due to the intense competition for deals. Respondents in this region seemed distinctly comfortable with levels of governance and transparency as well as Human Capital in their portfolio companies.

East Africa

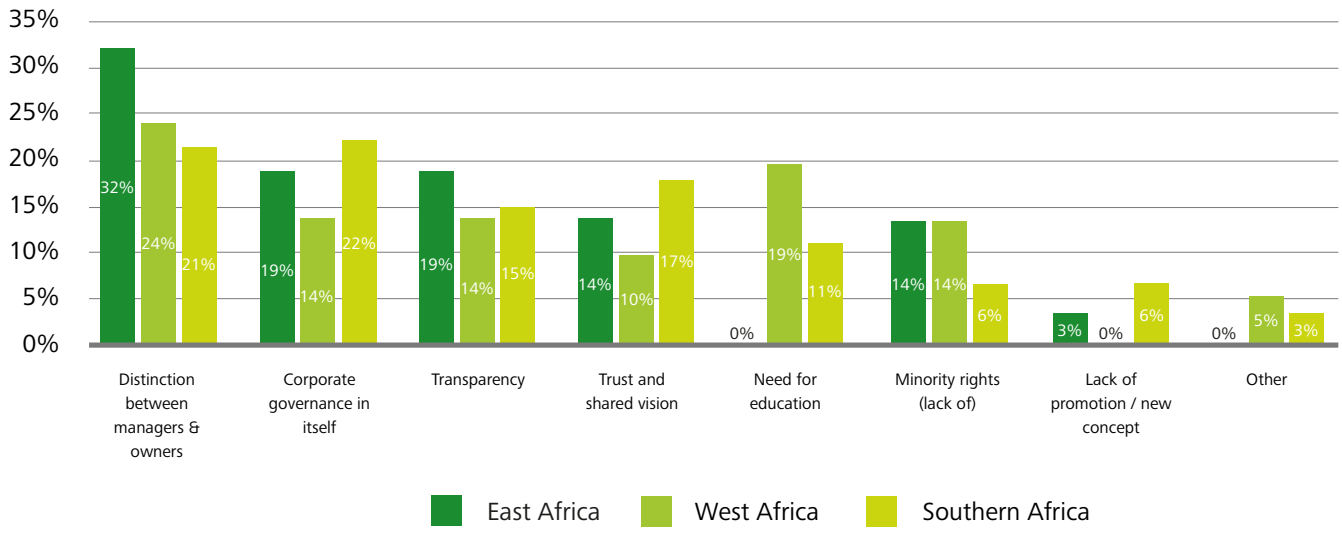
East African PE investors indicated that (other than the three key challenges of quality deal flow, human capital deficiencies and governance), that lack of awareness and acceptance of PE were issues they were grappling with, albeit with some improvements noted in recent years.

West Africa

Quality deal flow was not identified as a key issue in West Africa, with investors more concerned about lack of awareness of PE as a source of finance and a difficult exit environment. This is an indication of the stage of not only the PE market but of the capital markets in general.

Biggest Challenges related to Improving Corporate Governance

(Fig. 6.2) What do you see as the top three challenges related to improving corporate governance for your regional portfolio companies?



According to investors, the biggest challenge to corporate governance related to their portfolio companies is the distinction between managers and owners, an issue that is typical of the PE environment regardless of jurisdiction.

Insights from PE Firms

"LP's expect a higher level of new commitments in the next 12 months given that they expect investments in the next 12 months to exceed the previous year's investments.

The main reason for investing in regionally focused funds is the economic growth prospects for the region.

The greatest deterrents to investing in regional focused funds are political risk, limited quality deal flow and regulatory risks.

In the medium term, LP's expect average annual net returns of between 15% and 20% from a regional focused fund.

7. Contact Details

South Africa:

Sean McPhee

Private Equity Leader

Email: smcphee@deloitte.co.za

Tel: +27824698094

Greg Benjamin

M&A Advisory Leader

Email: gbenjamin@deloitte.co.za

Tel: +27825683590

West Africa:

Temitope Odukoya

Private Equity Leader

Email: todukoya@deloitte.com

Tel: +234 19041748

East Africa:

Gladys Makumi

Private Equity Leader

Email: gmakumi@deloitte.co.ke

Tel: +254 20 4230 331

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (DTTL), its network of member firms and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. The more than 210 000 professionals of Deloitte are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015 Deloitte & Touche. All rights reserved. Member of Deloitte Touche Tohmatsu Limited

Designed and produced by Creative Services at Deloitte, Johannesburg. (809844/RUDI)