About

Over the last several years, the emerging markets have evolved into a critical pillar of global investors’ strategies. As growth rates declined across most of the developed world in the aftermath of the credit crunch, private equity (PE) firms turned to emerging markets as an engine of growth. In 2008, Africa accounted for less than 4% of emerging markets fundraising. Now it accounts for over 9%. While global investor interest has begun shifting back in favor of the growing developed economies in recent months and away from some of the emerging economies that have weaker economic or political environments, Africa's strong long-term growth fundamentals continue to drive the development of the PE industry on the continent.

EY’s Private equity roundup series delves into the drivers of fundraising, investment activity and exits across a range of developing economies, including Africa, China, India and Latin America. Our quarterly, semiannual and annual reports deliver fresh insight into the forces shaping activity, including macroeconomic trends, regulatory developments and capital markets activity.

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Private equity roundup – Africa is part of a series from EY focusing on private equity activity in the emerging markets.
Introduction

The PE industry remains in a period of rapid evolution. Globally, PE firms are changing the ways they do business – adding new product lines across the alternatives space, altering the ways that they interact with limited partners (LPs), and developing best practices focused on helping firms become increasingly sophisticated in the ways that they source and manage their investments.

Perhaps the most important development for the industry, however, is the rapid expansion of PE across the emerging markets. Regions including Latin America, Eastern Europe, India, Asia and Africa have all seen strong interest from LPs and general partners (GPs) in recent years, fueling a significant scale-up in allocations to established local managers and spurring increased involvement from globally diversified players. Recent figures from Emerging Markets Private Equity Association (EMPEA) note that the percentage of capital available for investment that is focused on the emerging markets has grown from about 7% of aggregate committed capital eight years ago to approximately 14% at present.

However, despite the whirlwind of change sweeping the industry, the core precept of PE has remain unchanged: to take a company and make it better. PE firms across the globe are working with companies to help them achieve their full potential by improving operations, strategically focusing on top-line growth and creating efficiencies across the portfolio in order to drive returns for their investors. To that end, the largest and most established firms are increasingly working to formalize and institutionalize the process, hiring talented industry executives and operating partners to impart decades of expertise on their growing companies.

The PE firms that are active across Africa pull from a similar playbook. At its heart is a partnership with management, family owners and entrepreneurs to foster a company’s growth, facilitated by properly aligning incentives among key stakeholders. As such, Africa continues to see strong interest from investors. Fundraising trended higher in 2014 as investors sought exposure to Africa’s seemingly unlimited potential, and the value of transactions nearly doubled during the year as PE firms put to work the billions raised over the last several years. Exits continued to gather momentum, reaching an eight-year high and providing LPs with confidence that firms can execute on the critical last link in the PE life cycle.

The outlook for the continued development and maturation of Africa’s PE industry is bright. Indeed, interest in Africa has never been higher and the thesis perhaps never stronger. Moreover, the value that PE brings – financial discipline, access to capital markets, capital for growth and corporate governance – has never been clearer.

While Africa is a unique and diversified market with its own opportunities and challenges, PE’s impact in the region is only beginning to be felt. The next decade promises to be an exciting time for PE in the region.
The growth trend in Africa remains strong. A diverse range of African countries have now experienced consistent and robust growth for over a decade – certainly the longest period of sustained growth since the early 1960s, when many African countries attained independence.

Since 2000, the size of the sub-Saharan economy has more than quadrupled. Growth is being driven by investments in infrastructure, a robust services sector and strong agricultural production, especially in the region’s lower-income countries.

African economies continue to diversify and have been among the fastest growing in the world, with some countries’ growth rates in excess of 7% over a sustained period.

What makes this economic performance particularly remarkable is the context in which growth is occurring. Although many African economies have been negatively impacted by the challenging macro environment among key trading partners in Europe and North America, most have remained remarkably resilient.

Figure 1: The African growth story is real

Source: Africa 2030: Realizing the possibilities, EY, 2014, based on data from the Oxford Economics Database.
Economic overview

Since the end of the Cold War and apartheid, Africa has embarked on a series of long-term reforms. There has been a decline in armed conflicts, resulting in increased stability, which has opened the door to a greater focus on economic growth and development. In many countries, inflation has been brought under control, foreign debt and budget deficits have been reduced, state-owned enterprises have been privatized, regulatory and legal systems have been strengthened, and many African economies have opened to international trade, creating an increasingly healthy environment for doing business across Africa.

An increasingly healthy macro situation, the commodities boom and rising quality of life indicators for Africa's 1.1 billion citizens are all contributing to sustained growth.

The increase in Africa's quality of life, combined with the trend toward increased urbanization, is leading to a shift in focus for much of the region's foreign direct investment (FDI), from extractive to consumer-facing industries. Mining and metals, coal, oil and natural gas, which have historically attracted the bulk of FDI inflows, have recently become less prominent, as service- and consumer-related industries have increased in relative importance.

Figure 2: GDP, current prices (US$m)

Source: IMF World Outlook Database, October 2014.
Africa remains a top destination for investment as investor perceptions mature

Africa's perceived attractiveness has risen dramatically over the last several years. According to EY's latest Africa attractiveness survey, Africa is currently the world's fourth-most attractive destination for investment, and in 2014 it was the second-most attractive destination. This represents a dramatic turnaround in sentiment – just five short years ago, Africa ranked near the bottom of the list at number eight.

While Africa has experienced stronger headwinds in the past year – namely, the impact of oil prices on the Nigerian and Angolan economies and sluggish growth in South Africa – the region remains resilient. Nearly 70% of respondents expect Africa to improve over the next three years as a place for companies to establish or develop activities.

The survey also found a dramatic contrast in perception between those companies with an established business presence in Africa and those with no presence. Those with an established business presence in Africa are more positive about the continent's prospects. When considering Africa's attractiveness relative to other regions, these investors view the continent as a more attractive investment destination than anywhere else in the world. In stark contrast, those with no business presence in Africa view the continent as the world's least attractive investment destination.

Perception gap in Africa

<table>
<thead>
<tr>
<th>Perception</th>
<th>Respondents who are not established in Africa</th>
<th>Respondents who are already established in Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>Africa is the most attractive investment destination in the world</td>
<td>Africa is the second least attractive investment destination in the world</td>
</tr>
<tr>
<td>66%</td>
<td>believe attractiveness has improved over the past year</td>
<td>believe attractiveness has improved over the past year</td>
</tr>
<tr>
<td>81%</td>
<td>believe attractiveness will improve over the next three years</td>
<td>believe attractiveness will improve over the next three years</td>
</tr>
</tbody>
</table>

Source: EY's 2015 Africa attractiveness survey.
Economic overview

Two key trends gain further momentum

A major shift continues in terms of the growing share of intra-regional investment in Africa, the result of improving regional value chains and increasing regional integration. Seven years ago, the share of FDI projects in Africa with other African countries as their source was just 8%. In 2014, this reached 19%. Indeed, intra-African investment is the second-largest source of FDI, behind Western Europe.

Moreover, the industries into which investment is flowing continue to extend beyond the extractive industries, driven by the needs of a large and growing middle class. Consumer-oriented industries such as TMT (technology, media and telecom), financial services, and retail and consumer products collectively accounted for more than half of last year’s FDI projects.

1 Intra-African investment momentum builds

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>8%</td>
<td>17%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: EY’s 2015 Africa attractiveness survey.

2 Consumer-facing industries rise in prominence – share of FDI projects in 2014

<table>
<thead>
<tr>
<th>Industry</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology, media and telecommunications</td>
<td>19.6%</td>
</tr>
<tr>
<td>Financial services</td>
<td>18.1%</td>
</tr>
<tr>
<td>Retail and consumer products</td>
<td>14.1%</td>
</tr>
<tr>
<td>Diversified industrial products</td>
<td>5.3%</td>
</tr>
<tr>
<td>Coal, oil and natural gas</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Source: EY’s 2015 Africa attractiveness survey.
Limited partners (LPs) remain committed to Africa and the opportunity therein. Fundraising for the region remained strong in 2014, increasing 24% to US$4.1b, from US$3.3b a year earlier. Perhaps most significantly, the rise came amid an environment in which many investors shifted their focus back to developed markets, such as the US and Europe. Despite the more bullish sentiment toward developed markets last year, the continent’s robust fundraising showed that investors continue to believe in Africa’s potential.

Africa is in many ways a beneficiary of investors’ increasing comfort with the risk profile of emerging markets. According to EMPEA’s latest Global Limited Partners Survey, 78% of LPs anticipate increasing or maintaining their level of new commitments to PE in emerging markets. The survey findings reflected sub-Saharan Africa as keeping its position (same as 2014 survey) as third-most attractive market after Latin America (excluding Brazil) and Southeast Asia. Sub-Saharan Africa was the most favored region for LPs to expand or begin investing, with only 3% of respondents indicating they would decrease or stop investing, suggesting that recent volatility has done little to upend investors’ commitment to the region.

Sub-Saharan Africa in particular continues to attract investor interest. According to EMPEA’s LP survey, roughly 36% of respondents plan to either expand or start investing in sub-Saharan Africa over the next two years – the highest percentage across all emerging market regions. This should assist firms as they seek to close or launch new investment vehicles dedicated to Africa.

Among the largest funds to close in 2014 was the April close by the Carlyle Group LLC of its maiden African fund, Carlyle Sub-Saharan Africa Fund. The vehicle secured US$698m in investor commitments; many see the fund as a watershed moment for PE involvement on the continent. The fund will focus on investment opportunities poised to benefit from Africa’s rapidly growing middle class.

Figure 3: Fundraising in Africa US$b

<table>
<thead>
<tr>
<th>Year</th>
<th>Fundraising US$b</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.6</td>
</tr>
<tr>
<td>2011</td>
<td>2.8</td>
</tr>
<tr>
<td>2012</td>
<td>1.4</td>
</tr>
<tr>
<td>2013</td>
<td>3.3</td>
</tr>
<tr>
<td>2014</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Sources: AVCA, EMPEA, Preqin, EY.

Note: includes interim and final closes for funds with a significant or exclusive Africa focus.
Fundraising

Figure 4: Top Africa-focused funds raised

<table>
<thead>
<tr>
<th>Fund manager</th>
<th>Fund name</th>
<th>Fund size (US$m)</th>
<th>Fund type</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helios Investors III</td>
<td>Helios Investment Partners</td>
<td>1,100</td>
<td>Growth</td>
<td>Closed – Jan 2015</td>
</tr>
<tr>
<td>Abraaj Africa Fund III</td>
<td>The Abraaj Group</td>
<td>990</td>
<td>Buyout</td>
<td>Closed – Apr 2015</td>
</tr>
<tr>
<td>African Development Partners II</td>
<td>Development Partners International</td>
<td>725</td>
<td>Growth</td>
<td>Closed – Mar 2015</td>
</tr>
<tr>
<td>The Carlyle Group</td>
<td>Carlyle Sub-Saharan Africa Fund</td>
<td>698</td>
<td>Growth</td>
<td>Closed – Apr 2014</td>
</tr>
<tr>
<td>Amethis Finance SICAR</td>
<td>Amethis Finance</td>
<td>530</td>
<td>Growth</td>
<td>Closed – Jun 2014</td>
</tr>
<tr>
<td>*LeapFrog Financial Inclusion Fund II</td>
<td>LeapFrog Investments</td>
<td>400</td>
<td>Growth</td>
<td>Closed – Sep 2014</td>
</tr>
</tbody>
</table>

*LeapFrog multiregion fund with significant African presence per leapfroginvest.com

Source: Preqin, AVCA, EY research

Fundraising outlook

Fundraising for investments in Africa has significantly increased for two straight years, and interest in the region continues to rise, driven by a number of key trends, including a rising middle class, demographic growth and low PE penetration. Already, 2015 has seen a number of successful closes, including the April close of Abraaj’s Africa Fund III, which closed with US$990m in investor commitments; the January close of Helios Investors III, which closed with US$1.1b in commitments; and the March close of DPI’s African Development Partners II, which closed with US$725m in commitments.

Clearly, investors see significant long-term potential in the region. Africa should remain high on LPs’ radar screens as its PE industry continues to grow and mature, while some emerging markets with which the region competes for capital reach saturation, and as existing investments are harvested and add to the industry’s success stories.

Figure 5: Selected Africa-focused funds currently raising capital

<table>
<thead>
<tr>
<th>Fund manager</th>
<th>Fund name</th>
<th>Fund target (US$m)</th>
<th>Fund type</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harith General Partners</td>
<td>Pan African Infrastructure Development Fund II</td>
<td>1,200</td>
<td>Infrastructure</td>
<td>First close</td>
</tr>
<tr>
<td>Actis</td>
<td>Actis Africa Real Estate III</td>
<td>400</td>
<td>Real estate</td>
<td>Raising</td>
</tr>
<tr>
<td>Investec Asset Management</td>
<td>Investec Africa Private Equity Fund 2</td>
<td>350</td>
<td>Growth</td>
<td>Second close</td>
</tr>
<tr>
<td>Medu Capital</td>
<td>Medu Capital Fund III</td>
<td>313</td>
<td>Buyout</td>
<td>First close</td>
</tr>
<tr>
<td>International Housing Solutions</td>
<td>IHS II</td>
<td>300</td>
<td>Housing</td>
<td>Third close</td>
</tr>
<tr>
<td>AfricInvest Group</td>
<td>AfricInvest Fund III</td>
<td>272</td>
<td>Growth</td>
<td>First close</td>
</tr>
<tr>
<td>Abraaj</td>
<td>Abraaj North Africa Fund II</td>
<td>250</td>
<td>Growth</td>
<td>Raising</td>
</tr>
<tr>
<td>Vantage Risk Capital</td>
<td>Vantage Capital Pan-African Fund</td>
<td>250</td>
<td>Mezzanine</td>
<td>First close</td>
</tr>
<tr>
<td>Berkeley Energy</td>
<td>Berkeley Africa Renewable Energy Fund (AREF)</td>
<td>200</td>
<td>Infrastructure</td>
<td>Second close</td>
</tr>
<tr>
<td>Convergence Partners</td>
<td>Convergence Partners Communications</td>
<td>200</td>
<td>Infrastructure</td>
<td>First close</td>
</tr>
</tbody>
</table>

Source: EMPEA, Preqin.
According to AVCA data, the aggregate deal value of completed African transactions in 2014 rose nearly 90% to US$8.1b. Activity was spread across a range of deal types. The largest deal was the US$3.2b of further capital raised for IHS Nigeria Ltd. to acquire additional telecommunications infrastructure. While the deal has yet to close, IHS has funding secured from a range of investors, including Goldman Sachs’ Merchant Banking Division, Emerging Capital Partners and Investec Asset Management. The second-largest investment was also in the telecoms tower infrastructure with, a further US$630m being raised for Helios Tower Africa and investors including Helios Investment Partners, Providence Equity Partners and IFC Asset Management.

Large global PE firms made their presence felt in Africa on the investment front in 2014. The Carlyle Group made three significant investments in the region in 2014, including the US$147m investment in Diamond Bank PLC and the acquisition of Ti-Auto and J&J Africa. It was joined by KKR & Co. LP, which invested US$200m in Ethiopian flower company Afriflora, the world’s largest producer of fair-trade roses; Permira, which acquired Teraco Data Environments for an undisclosed amount; and Blackstone, which announced a partnership with African developer Black Rhino to construct and operate large-scale infrastructure projects across sub-Saharan Africa.

Deals like these, along with the IHS and Helios Tower Africa capital raises, provide concrete evidence of the scalability of Africa PE. Observers have long wondered whether the region provided sufficient large investment opportunities. However, through creative sourcing, including secondary buyouts, scaling and innovative structuring, PE firms are indeed finding ways to put significant amounts of capital to work in the region.
The rebasing of Nigeria’s gross domestic product (GDP) in April 2014 made it the continent’s largest economy and one of the largest 30 globally. Over the last decade, Nigeria has emerged as an attractive consumer market in addition to its status as Africa’s leading producer of oil. The country continues to develop a robust and diversified economy driven by strong demand in the agriculture, services and manufacturing sectors, as well as exports to other sub-Saharan African countries, the US and Europe.

Kenya has also achieved strong economic gains in recent years, and its growth prospects remain promising, aided by the expansion of consumer-facing sectors and a growing middle-class population. The country is establishing itself as a technology and innovation hub, and foreign investors are also targeting the nation as a springboard to other fast-growing consumer markets in East Africa. Many global companies are establishing research and development operations in the country; private spending on R&D is high, and scientific research institutions and business are closely linked to drive innovation.

Africa’s economic strength – looking toward 2030

Africa has shown economic progress since 2000, recording 14 years of consecutive GDP growth, according to the IMF World Economic Outlook Database. Furthermore, this strong growth is expected to continue – sub-Saharan Africa is forecast to reach the level where emerging Asia is today by 2030 in terms of per capita income, according to the United Nations Development Program. This is excellent news for investors, who are increasingly recognizing that while Africa is currently at a state similar to many of the emerging economies of Asia and Latin America two to three decades ago, the region is catching up fast.

Exports have grown over fourfold since 2000 and have been a key driver of the continent’s sustained economic growth. China has been at the forefront of this growth, and Africa is now the country’s single largest trading partner. This could increase further because Africa has the resources and comparative advantage to position itself as the next manufacturing hub. Africa features low labor costs and has abundant natural resources.

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### Figure 7: Selected PE investments in Africa in 2014

<table>
<thead>
<tr>
<th>Target company</th>
<th>Value (US$m)</th>
<th>Country</th>
<th>Sector</th>
<th>Investor(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IHS</td>
<td>3,150</td>
<td>Pan-African</td>
<td>Telecommunications infrastructure</td>
<td>Goldman Sachs’ Merchant Banking Division, Emerging Capital Partners, IFC Asset Management Co. and Investec Asset Management</td>
</tr>
<tr>
<td>Helios Towers Africa</td>
<td>630</td>
<td>Pan-African</td>
<td>Telecommunications infrastructure</td>
<td>Helios Investment Partners, Providence Equity Partners and IFC Asset Management</td>
</tr>
<tr>
<td>AES Societe Nationale d’Electricite (AES SONEL)</td>
<td>202</td>
<td>Cameroon</td>
<td>Energy</td>
<td>Actis</td>
</tr>
<tr>
<td>Afriflora</td>
<td>200</td>
<td>Ethiopia</td>
<td>Consumer goods</td>
<td>KKR</td>
</tr>
<tr>
<td>Diamond Bank</td>
<td>147</td>
<td>Nigeria</td>
<td>Financials</td>
<td>The Carlyle Group</td>
</tr>
<tr>
<td>Wananchi Group Holdings</td>
<td>130</td>
<td>Kenya</td>
<td>Media</td>
<td>Actis, Altice S.A., Emerging Capital Partners, Helios Investment Partners, Liberty Global</td>
</tr>
<tr>
<td>Takealot</td>
<td>100</td>
<td>South Africa</td>
<td>Retail</td>
<td>Tiger Global Management</td>
</tr>
<tr>
<td>Credit Services Holdings</td>
<td>100</td>
<td>South Africa</td>
<td>Financials</td>
<td>Actis</td>
</tr>
<tr>
<td>J&amp;J Africa</td>
<td>80</td>
<td>Mozambique</td>
<td>Logistics</td>
<td>The Carlyle Group and Investec Asset Management</td>
</tr>
<tr>
<td>Lake Turkana Wind Project</td>
<td>70</td>
<td>Kenya</td>
<td>Energy</td>
<td>Harith General Partners</td>
</tr>
<tr>
<td>Tekkie Town</td>
<td>65</td>
<td>South Africa</td>
<td>Retail</td>
<td>Actis</td>
</tr>
<tr>
<td>ARM Pensions</td>
<td>59</td>
<td>Nigeria</td>
<td>Financials</td>
<td>Helios Investment Partners</td>
</tr>
</tbody>
</table>

Source: AVCA, EMPEA, EY research.
Moreover, Africa could be viewed as the location of choice, as currency appreciation and rapid wage increases occur in other countries. Africa is well-positioned to step in for the manufacturing needs of other countries and see a wave of industrial migration go its way. There has been some movement on this front. For one, Chinese shoemaker Huajian now operates a factory in Addis Ababa, Ethiopia. The plant employs 600 persons, and Huajian plans to invest US$2b to create a light-manufacturing special economic zone in that country. Another example is Bombardier Aerospace, which plans to invest a total of US$200m by 2020 to build a manufacturing facility in the MidParc Casablanca Free Zone in Morocco. Bombardier said it selected Morocco because of its competitive manufacturing, shipping and transportation costs; its proximity to Europe; and the Government’s commitment to developing the aerospace industry. Bombardier’s long-term approach is something PE firms could emulate when investing in Africa.

Key investment themes — focus on consumer-related sectors

By now, most investors are well aware that Africa's investment opportunities go well beyond commodities. Africa's recent growth has been marked by development and growth across a range of consumer-related sectors, including RCP (retail and consumer products), financial services and TMT (technology, media and telecoms).

The pace of diversification of economic activity in Africa is helping increase employment levels in the region and leading to the creation of a new consumer class. This in turn attracts more foreign investment into the region, which will only accelerate the growth of the new middle class and help grow their spending power.

Financial services

The financial services sector is seeing increased interest as foreign banks and other financial companies launch or expand operations in the region to tap into the growing but underserviced market. Regional banks and other financial services firms in Africa are ramping up their presence across the continent. The sector is becoming increasingly attractive as the ease of doing business improves, market size increases and economic growth picks up. Banking penetration and financial inclusion remain low, with significant headroom for growth. Various opportunities are available: expanding current product offerings, increasing product penetration, bringing the unbanked into the financial system and capitalizing on the rise of a new consumer class by developing innovative services and channels.

As a result, PE firms are investing across a range of opportunities in the sector. Among these was Helios Investment Partners’ acquisition of a minority stake in Nigeria-based ARM Pension Managers PFA. The company is one of the country’s largest independent pension fund managers, with over US$2.2b in assets under management. According to press documents released at the time of the deal, the pension industry in Nigeria has grown over 30% per year for much of the last decade, yet significant headroom for growth remains — currently less than 10% of Nigeria’s workforce is enrolled in the country’s pension plan.

Retail and consumer products

The anticipated increase in consumer spending in Africa is a result of the rising middle class on the continent. This forecast increase is expected especially on discretionary goods.

The poverty rate in Africa has been falling by approximately 1 percentage point a year since 1995, according to The World Bank, which estimates that the proportion of Africans living beneath the poverty line will have reduced to 38% in 2015 (from 60% in 1995), despite having the highest population growth rate in the world. Besides less poverty, education is remaking the continent. The average adult literacy rates in Africa improved to almost 65% today, from 52% in the 1990s, according to UNESCO data.

These figures are evidence of the rise in Africa’s middle class. Both retailers and consumer goods companies are viewing this as an opportunity to expand their presence throughout the region through both brick-and-mortar locations and the e-commerce option of selling goods and services. One recent example of this was Tiger Global Management’s US$100m investment in Takealot. The e-commerce site sells a wide range of products, including DVDs, books and housewares to Africa’s growing middle class. The capital raised will be used to fund expansion across South Africa and into SSA.
Agribusiness

Similarly, Africa’s agricultural industry has tremendous potential, partly because the region has a significant amount of arable land. However, growth can be achieved only with the right mix of investments to fix infrastructure concerns, coupled with more education to farmers so they can improve productivity and crop performance. The use of better products, such as seeds and fertilizer, will help the region’s agriculture industry improve its output, combat climate change and take advantage of the rising demand for cotton, coffee and other goods, as well as commodities used by the feed industry.

Both governments and corporations across Africa are looking to increase opportunities in agriculture from a regional perspective. This will help the continent fight poverty, as the region is expected to have a major population growth spurt. Renewed commitments from these two groups, plus nongovernmental organizations, will prevent Africa’s agricultural industry from neglect. This is good news for the region because it should yield higher production of cash crops like cocoa and rice, which is a staple in many countries.

Technology, media and telecom

Mobile technology has been an important catalyst for economic growth in Africa. Although Africa has by far the lowest fixed-line penetration in the world, the exponential growth in access to mobile communications and services has allowed Africans to leapfrog legacy technologies. This leapfrog effect has transformed not only the social but also the commercial landscape in Africa.

The next wave of change is being driven by growing levels of internet access; penetration levels remain relatively low in Africa. About 20% of Africans expected to be online by the end of 2014, up from only 10% in 2010. With basic smartphones becoming more affordable and growth in mobile broadband among the highest in the world, access to internet-based services and technology via mobile phones is likely to explode in the coming years. The SSA region is dominated by low-cost 2G connections, but will likely see rapid adoption of 3G and 4G technologies by 2017. This will not only open up numerous commercial opportunities but also provide access to information and services in areas such as education, health and agriculture that could transform the lives of many millions of Africans.

These trends are reflected in two of Africa’s largest announced deals in 2014. In July 2014, Helios Towers Africa announced that it has raised US$630m from a consortium that included prior investors Helios Investment Partners, as well as new investors Providence Equity Partners and IFC Asset Management. The mobile tower operator acquired approximately 3,100 towers from India’s Bharti Airtel, significantly increasing its footprint across the region. The company estimates that there are roughly 150,000 towers in Africa, an amount it expects to double over the next five years. IHS Nigeria PLC executed a similar expansion strategy, backed by investors including Emerging Capital Partners, Wendel SA and other investors. In August, the company announced the acquisition of more than 2,000 towers from Emirates Telecommunications Corp., and in September, acquired an additional 9,000 towers in a deal reportedly valued at more than US$2b.

Investor interest goes beyond South Africa

Investor interest continues to expand well beyond the borders of South Africa. PE firms are looking at and increasingly investing in Nigeria, Kenya and many other countries in the region.
Given the increase in fundraising and investment activity over the last several years, the window for realizations for many of these investments is starting to widen, with more companies entering the period where an exit becomes increasingly imperative.

Indeed, the growing portfolio overhang and the imperative to exit are issues that the industry has dealt with across the globe. In developed markets, improved conditions for M&A activity and robust IPO markets have allowed PE sponsors to exit portfolio companies at a record pace. However, exits across many of the emerging markets have been less robust, the result of challenging macro conditions, particularly in markets like China and Latin America.

Sub-Saharan Africa saw a marked increase in exit activity in 2014. In 2013, there were 29 disclosed exits. Last year saw 40 disclosed PE exits, an increase of 38%, and a high for exits in the region.

Figure 8: PE exits by year, 2007-14

Source: AVCA, EY research
More than half, 55%, were via trade sales. By far the largest of these was South Africa-based Steinhoff’s acquisition of Pepkor Holdings for US$5.7b in the largest announced SA deal in the last decade. The deal provided an exit for Brait, which was a PE firm at the time of the investment, although has since transitioned to an investment holding company. Pepkor is one of Africa’s largest retailers, focused on clothing, housewares and textiles. The year also saw the July exit of Alexander Forbes by investors including Actis and Ethos via an oversubscribed offering on the Johannesburg stock exchange. The 2007 US$1.2b buyout was one of the largest and most complex buyouts ever undertaken in Africa.

While the majority of 2014’s exits were via trade sales, the year saw a number of significant secondary transactions, which continue to grow in significance as an exit route for SSA investments. Among the largest of these was the acquisition of Tiger Automotive from Ethos Private Equity by the Carlyle Group and Old Mutual. The deal marked the first in South Africa for the Carlyle Group, which has made a number of investments across a range of sectors in the region. Tiger Automotive was acquired by Ethos in 2008 in a take-private deal valued at approximately US$91m. The company distributes and sells wheels and tires across a network of more than 100 retail locations. Other significant secondary transactions included the sale of Libstar, a large South African consumer goods group, by Lereko Metier and DPI to Abraaj, and the sale of RTT (South Africa's leading express logistics business) by RMB Ventures, Actis and other shareholders to Ethos, DPI and the PIC.
Outlook
Despite clear evidence to the contrary, Africa in many ways continues to suffer from a decades-long perception that the region is an area of economic stagnation, political instability, armed conflict and extreme poverty. Fortunately, a new African narrative has emerged, one that investors ignore at their peril. Sustained underinvestment is giving way to a rapidly growing middle class and rising consumer power. Increased investment from both local and foreign investors across a range of industries is now driving modern Africa’s story.

PE is an increasingly important part of this narrative. Local firms are seeing increased attention from global LPs, and global funds are dedicating new resources and making significant commitments to the region in the form of talent and capital.

PE firms are investing in an ever-widening array of businesses. Perhaps most importantly, PE firms bring to the table far more than just the capital needed to expand. The most compelling firms are those that can help companies articulate and execute a well-defined strategy that brings to bear significant operational expertise, financial discipline and good governance.

Africa’s growth story is real. While volatility will remain an ever-present feature of the African investment landscape, those firms with local market expertise, broad networks and market connections, and an ability to add value through operational discipline, will be well-positioned to benefit from one of the most exciting opportunities in the global economy.
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