Private equity roundup
Africa
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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. Just five years ago, the emerging markets represented approximately 12% of total PE fund-raising. Now, they account for more than 20%. While global investor interest has begun shifting back in favor of the growing developed economies in recent months and away from some of the emerging economies that have weaker economic or political environments, Africa's strong long-term growth fundamentals should continue to drive the development of the PE industry on the continent.

EY's *Private equity roundup* series delves into the drivers of fund-raising, 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

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

The PE community in Africa has been growing steadily in recent years and is now entering a new level of maturity. A growing limited partner (LP) appetite for the region is reflected in improved fund-raising numbers, and 2013 saw some notable fund announcements by leading PE firms. PE investment activity (both value and volume) has increased since last year across a range of industries, with opportunities being explored in consumer-driven sectors and sectors benefiting from commodity-led and infrastructure-led growth. Sub-Saharan countries outside South Africa, such as Ghana, Kenya, Nigeria, Côte d’Ivoire and Uganda, are attracting increasing investor interest.

Exits have been relatively muted in 2013, primarily because of external events. However, the pipeline for exits in the medium term looks strong as there have been a significant number of PE investments on the continent over the last five years, and many PE firms now have maturing portfolios that are ripe for exit.

Key findings for African PE in 2013:

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

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*2013 Global Limited Partners Survey, Emerging Markets Private Equity Association  
**As defined by the World Bank (see definition on page 5)
Africa is experiencing the longest period of sustained and robust economic growth since the 1960s. The continent’s economic output has risen almost fourfold since 2000 to over US$2t. This has been a remarkable feat given the unprecedented global economic conditions that have prevailed in the aftermath of the credit crunch in 2007, and it is testament to the deep-seated changes that have taken place in the political, legislative and business environments within countries. From 2000 to 2009, Africa had the highest number of economies growing above 7% per annum of any continent in the world (albeit from a lower base).

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

Figure 1. Africa accelerates past Asia*

*Highest number of countries that grew at 7% annually on average over 2000-09
Source: Renaissance Capital

Figure 2. Africa’s economic output (GDP, US$bn)

Source: IMF World Economic Outlook Database
Economic overview

**Diversifying away from resource-driven growth**

Although resources will continue to be an important contributor for growth on the continent – the capital-intensive oil and gas sector alone has attracted 40% of the greenfield FDI capital into the continent since 2003 – there is an ongoing structural shift toward more broad-based service-driven economies that are less reliant on volatile commodity prices.

From 2000-11, in which the size of Africa’s GDP has trebled, natural resources (excluding agriculture) made an average contribution of less than 20% to growth, according to EY’s Africa Attractiveness Survey 2013. The single greatest contributor to GDP was the services sector, accounting for close to 54% of growth over the period.

**Consumer demand remains resilient**

The rapid growth of the African middle class has made domestic demand a major driver of economic growth across the region. The African Development Bank estimates that Africa’s middle-class population grew by more than 60% to 313 million over the last decade. A total of 27 African countries have already attained “middle income” status.* It is estimated that if current growth rates are sustained, 13 more could reach middle-income status by 2025.

*The World Bank’s criterion for classifying economies is gross national income (GNI) per capita. A country is classified as “middle income” if it has GNI of between US$1,026 and US$12,475. We have counted Equatorial Guinea as middle income, although it is, in fact, the first African country to be classified as “high income” (i.e., GNI per capita in excess of US$12,475).
Economic overview

Figure 4. Africa’s rise to middle income

Economic overview

Growth in trade and diversification of trading partners

Another driver of Africa’s sustained economic growth since 2000 has been a fourfold growth in trade. Although the European Union remains Africa’s largest trading partner, its share of trade with Africa has decreased from 50% to just 30%. Africa’s trade with other emerging markets in particular has picked up over the period. Standard Bank estimates that total trade between Africa and the BRICS countries (Brazil, Russia, India, China and South Africa) grew more than tenfold between 2000 and 2012.

Despite strong growth, FDI numbers show a mixed picture

EY’s Africa Attractiveness Survey shows that greenfield FDI projects into the continent decreased by 12% in 2012, reversing the strong growth in projects during 2011. This decline, however, occurred in a context in which global project flows shrunk by 15% year-on-year. Recent data from UNCTAD shows that during the first half of 2013, FDI flows to Africa fell by 5% to US$23.3b, compared with US$24.6b in the same period in 2012.

However, as EY’s Africa Attractiveness Survey points out, while growth in FDI projects to North Africa has largely stagnated since 2007, FDI projects into Sub-Saharan Africa have grown. Among the countries attracting new projects include Ghana, Nigeria, Kenya, Tanzania, Zambia, Mozambique, Mauritius and South Africa.

Overall, investors see Africa as an attractive place to invest

Nearly three-quarters (72%) of respondents to EY’s 2013 Africa Attractiveness Survey believe that Africa will grow more attractive as a place for companies to start or develop activities over the next three years. Businesses that already have a presence on the continent tend to be more positive about Africa’s business environment than those that do not.

The same report demonstrated that Africa’s attractiveness relative to other regions has also improved. It was viewed as more attractive than five of the nine regions, including Western Europe and Central America. By comparison, Africa was viewed as ahead of only the former Soviet states and Central America in the 2011 survey.

Figure 6. Top 10 African FDI destinations 2011 and 2012

Countries ranked by most new projects in 2012

Source: EY’s Africa Attractiveness Survey 2013. Originally from FDI Markets; EY analysis.

Figure 7. Investment destination

Relative to the following markets, is Africa more or less attractive as an investment destination? (international business leaders)

Source: EY’s Africa Attractiveness Survey 2013 (total respondents: 503).
Growing interest from LPs resulted in a significant increase in fund-raising numbers for 2013. Funds raised by Ethos (US$800m) and Vital Capital’s maiden vehicle (US$350m) contributed a third of the amount raised. The US$3.3b raised in 2013 is the highest annual amount raised since US$4.7b was raised in 2007. This increase in fund-raising in Africa is in marked contrast to Latin America, China and India, which all recorded significant falls in fund-raising in 2013 relative to 2012, with India’s fund-raising in 2013 dropping below Africa’s.

**Figure 8. Fund-raising in Africa and other emerging markets, US$b**

<table>
<thead>
<tr>
<th>Year</th>
<th>Africa</th>
<th>China</th>
<th>India</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>32.2</td>
<td>6.8</td>
<td>7.9</td>
<td>2.6</td>
</tr>
<tr>
<td>2011</td>
<td>28.5</td>
<td>2.8</td>
<td>3.9</td>
<td>1.4</td>
</tr>
<tr>
<td>2012</td>
<td>28.7</td>
<td>3.9</td>
<td>3.3</td>
<td>1.4</td>
</tr>
<tr>
<td>2013</td>
<td>19.8</td>
<td>3.1</td>
<td>5.6</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Sources: Preqin, Factiva, VCCEdge and Venture Intelligence

**Figure 9. Selection of PE funds raised for Africa in 2013**

| Close date | Name of the fund | Fund manager | Fund size (US$m) | Fund type       |
|------------|------------------|--------------|-----------------|----------------|----------------|
| Dec-13     | Actis Energy III** | Actis        | 1,150           | Infrastructure |
| Jan-13     | Ethos Private Equity Fund VI | Ethos Private Equity | 800 | Buyout          |
| Mar-13     | Vital Capital Fund I | Vital Capital Investments | 350 | Growth          |
| Jul-13     | CapitalWorks Private Equity Fund II | Capital Works Equity Partners | 270 | Growth          |
| Sep-13     | African Agriculture Fund | Phatsa Group | 243 | Balanced       |
| Mar-13     | Maghreb Private Equity Fund III | Tuninvest – Africinvest Group | 156 | Growth       |

Source: Preqin

* Based on funds that are closed. Excludes funds that were still in the process of being raised at 31 December 2013.

**Pan-emerging-markets fund focused on a number of regions, including Africa.**
Fund-raising

PE fund-raising set to remain strong

The medium-term outlook for fund-raising in Africa remains strong. According to the 2013 Global Limited Partners Survey undertaken by the Emerging Markets Private Equity Association (EMPEA), Sub-Saharan Africa was ranked in first place as the most attractive emerging market for general partner (GP) investment, for the first time in the survey’s nine-year history. The survey cited positive demographic, economic and regulatory trends and relatively low entry valuations as the primary drivers for increasing Africa’s attractiveness to GPs.

According to the survey, the continent is also expected to see the greatest amount of new LP interest over the next two years. A fifth of LPs (19%) plan to begin investing in Africa over the period, compared with 14% for Turkey (in second place) and 12% for Southeast Asia (in third place). This should increase capital flows to fund managers on the continent, and there are a significant number of funds currently on the road – mostly domestic and regional funds – that are likely to close in 2014 that may benefit from LPs’ increased interest in the region.

Figure 11. Selection of PE funds currently fund-raising for Africa

<table>
<thead>
<tr>
<th>Vintage</th>
<th>Name of the fund</th>
<th>Fund manager</th>
<th>Target fund size (US$m)</th>
<th>Latest interim close (US$m)</th>
<th>Fund type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>Pan African Infrastructure Development Fund II</td>
<td>Harith</td>
<td>1,200</td>
<td></td>
<td>Infrastructure</td>
</tr>
<tr>
<td>2013</td>
<td>BTG Pactual Africa Fund</td>
<td>BTG Pactual</td>
<td>1,000</td>
<td></td>
<td>Infrastructure</td>
</tr>
<tr>
<td>2014</td>
<td>Helios Investors III</td>
<td>Helios Investment Partners</td>
<td>1,000</td>
<td></td>
<td>Growth</td>
</tr>
<tr>
<td>2013</td>
<td>Abraaj Africa III</td>
<td>The Abraaj Group</td>
<td>800</td>
<td></td>
<td>Buyout</td>
</tr>
<tr>
<td>2013</td>
<td>African Development Partners II</td>
<td>Development Partners International</td>
<td>500</td>
<td>250</td>
<td>Growth</td>
</tr>
<tr>
<td>2012</td>
<td>Aviance Africa</td>
<td>GCM Customized Fund Investment Group</td>
<td>500</td>
<td></td>
<td>Fund-of-funds</td>
</tr>
<tr>
<td>2013</td>
<td>Carlyle Sub-Saharan Africa Fund</td>
<td>The Carlyle Group</td>
<td>500</td>
<td>591.9</td>
<td>Buyout</td>
</tr>
<tr>
<td>2012</td>
<td>Frontier Resource Group I</td>
<td>Frontier Resource Group</td>
<td>500</td>
<td>100</td>
<td>Natural resources</td>
</tr>
<tr>
<td>2013</td>
<td>Ivora Africa Property Fund</td>
<td>Ivora Capital</td>
<td>500</td>
<td></td>
<td>Real estate</td>
</tr>
</tbody>
</table>

Sources: Preqin, AVCA, web searches. Based on funds that have been announced and not yet reached a final close at 31 December 2013.

Figure 10. The attractiveness of emerging markets for GP investment over the next 12 months – LP views

<table>
<thead>
<tr>
<th>Overall ranking</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>1</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Southeast Asia*</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Latin America (excl. Brazil)</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>China</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Turkey</td>
<td>5</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>6</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>7</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Russia/CIS</td>
<td>8</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>India</td>
<td>9</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>10</td>
<td>9</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: EMPEA

*Classified as “Other Emerging Asia” in 2011 and 2012.
The PE landscape in Africa continues to be dominated by domestic and regional PE firms. However, large global PE firms are looking at the market to capitalize on the growing investment opportunities available on the continent in sectors such as consumer, infrastructure and resources. The Carlyle Group, which recently announced a US$591m interim close on its US$500m-target maiden African fund, opened offices in South Africa and Nigeria in 2011 and is now reported to be looking at opening an office in East Africa. Brazil-based BTG Pactual is targeting a US$1b Africa-focused PE fund, which would be one of the largest funds raised for the region. In 2013, KKR hired a new team member in London to focus on leading and developing the firm’s Africa PE efforts. Some of the larger players are also investing in Africa through investment platforms, such as Blackstone-backed Sithe Global (hydropower) and Warburg Pincus-sponsored Delonex (oil and gas).

Niche PE investment strategies and platforms emerge

New and existing players in the African PE market are carving out niche strategies to give them a competitive edge on the continent. Examples of investment strategies, themes and platforms include:

**Infrastructure**

Africa needs huge infrastructure investment in order to meet the needs of its growing and increasingly urbanized population, especially in electricity and transport infrastructure (roads, ports, rail, airports). A number of private equity funds are targeting this sector. Convergence Partners recently announced a first close of US$145m on an infrastructure fund for information and communications technology investments across the continent. Harith General Partners is currently fund-raising for an infrastructure fund targeting US$1.2b, which will invest in projects across the continent. Sithe Global, a company majority-owned by a fund managed by Blackstone, implements large-scale, socially responsible power generation projects. It recently helped develop the Bujagali Hydroelectric Project in Uganda, the largest of its kind in Africa, almost doubling electricity supply in the country. Most recently, Reykjavik Geothermal, working in partnership with Sithe Global, announced it had reached agreement with the Ethiopian government to build the country’s largest independent power project, utilizing geothermal energy, at a projected cost of US$4b.

**Green energy funds**

A number of funds are targeting the renewable energy sector in Africa, particularly in wind and solar. Actis recently closed its heavily oversubscribed pan-emerging-markets energy fund on US$1.15b, far exceeding its original target of US$750m. Lereko Metier also had a successful fund-raising in 2013 for its Sustainable Capital Fund, closing on ZAR690m (US$67m). Mezzanine-focused Vantage Capital Group launched a renewable energy debt fund with a ZAR2.2b target to invest debt in projects in renewable energy in South Africa.

**Resources**

A relatively new theme for PE fund-raising is the emergence of resource-focused funds. This trend may seem surprising, given that PE has generally avoided raising resource-focused funds, but the reason these funds are gaining in favor is because the slowdown in demand from China for resources has created a window of opportunity to buy natural resources companies at relatively lower valuations. An increasing drive toward
indigenization of resources in Nigeria, for example, is also creating opportunities for local PE firms.

Notable PE activity in this sector included Warburg Pincus’ US$600m investment in Delonex Energy, an oil and gas exploration platform that focuses its activities in Central and East Africa. Helios Investment Partners acquired a minority stake in a joint venture formed by BTG Pactual with Petrobras International Braspetro. The new company was created for exploration and production of oil and gas in Africa. Noble Group Ltd. and TPG agreed to invest US$500m each in private mining venture X2 Resources for investments across the globe, including Africa. Frontier Resource Group is targeting US$500m for its latest fund to focus on natural resource development in markets such as Africa.

**Impact investing**

Impact investing is a theme that is gathering increasing interest among the investor community. It aims to attain a positive social and/or environmental impact while generating a profit. LeapFrog Investments, for example, pursues a "profit-with-purpose" strategy by investing predominantly in insurance companies in Africa and Asia because of the large potential for financial returns and social impact. South Africa-based International Housing Solutions focuses on developing affordable residential housing, which, while profitable for their investors, increases access to high-quality, affordable housing products for individuals and families. Newly formed One Thousand & One Voices (1K1V) plans to invest US$300m in Sub-Saharan Africa and describes itself as “a movement of influential families investing relational, intellectual and patient financial capital to profitably accelerate prosperity in developing markets.”

**Specialized investment platforms**

Atlas Mara is a new investment company backed by Bob Diamond, the former head of Barclays, and Ashish Thakkar, the founder of Mara Group, which has raised US$325m by listing on the London Stock Exchange. It plans to build a new financial services business in Africa.
According to data from the African Private Equity and Venture Capital Association (AVCA), which includes follow-on investments, the aggregate deal value of African deals done in 2013 was US$3.2b. This is a significant increase from the US$1.6b recorded in 2012.

The relatively high transaction value for Africa in 2013 was driven primarily by the US$1.035b follow-on investment in IHS Mauritius Ltd., which was led and managed by Emerging Capital Partners. Warburg Pincus’ US$600m investment in Delonex Energy, an oil and gas explorer that focuses its activities in Central and East Africa, also drove up the total transaction values for the continent. Another notable transaction in 2013 was the announcement that The Abraaj Group, together with Danone, are acquiring Ghana-headquartered Fan Milk International.* Although the deal value was not disclosed, it is believed to be the largest fast-moving consumer goods (FMCG) PE transaction in Sub-Saharan Africa outside South Africa.

Sub-Saharan Africa has historically lagged behind other emerging markets in terms of PE investment, although data from EMPEA shows that its share of the overall emerging markets investment pie has increased from about 2% in 2010 to 8% in 2013.

* Announced, but not completed.
Transactions

Figure 13. Selection of PE investments announced or completed in Africa in 2013

<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>African Industrial Services Group</td>
<td>n/a</td>
<td>Côte d’Ivoire</td>
<td>Diversified industrial products</td>
<td>Abraaj Group</td>
</tr>
<tr>
<td>Delonex</td>
<td>600</td>
<td>Kenya</td>
<td>Oil and gas</td>
<td>Warburg Pincus</td>
</tr>
<tr>
<td>Eaton Towers</td>
<td>195</td>
<td>Sub-Saharan Africa</td>
<td>Telecommunications</td>
<td>Capital International Private Equity Funds (CIPEF)</td>
</tr>
<tr>
<td>elefin LLC</td>
<td>n/a</td>
<td>Kenya</td>
<td>Financial services</td>
<td>B Miles</td>
</tr>
<tr>
<td>Endeavor Energy Holdings</td>
<td>100</td>
<td>Sub-Saharan Africa</td>
<td>Oil and gas</td>
<td>Denham Capital Management</td>
</tr>
<tr>
<td>Fan Milk International</td>
<td>n/a</td>
<td>Ghana</td>
<td>Consumer products</td>
<td>Abraaj Group</td>
</tr>
<tr>
<td>HFC Bank</td>
<td>n/a</td>
<td>Ghana</td>
<td>Financial services</td>
<td>Abraaj Group</td>
</tr>
<tr>
<td>IHS Mauritius Ltd.</td>
<td>1,035</td>
<td>Various</td>
<td>Telecommunications</td>
<td>Emerging Capital Partners-led consortium</td>
</tr>
<tr>
<td>Paycorp Holdings</td>
<td>95</td>
<td>South Africa</td>
<td>Financial services</td>
<td>Actis</td>
</tr>
<tr>
<td>Petróleo Brasileiro SA’s African operations</td>
<td>1,530</td>
<td>Various</td>
<td>Oil and gas</td>
<td>BTG Pactual, Helios Investment Partners</td>
</tr>
<tr>
<td>SONEL, Kribi, Dibamba</td>
<td>220</td>
<td>Cameroon</td>
<td>Power and utilities</td>
<td>Actis</td>
</tr>
<tr>
<td>Veolia Environnement – Morocco</td>
<td>484</td>
<td>Morocco</td>
<td>Power and utilities</td>
<td>Actis</td>
</tr>
<tr>
<td>Vine Pharmaceuticals</td>
<td>n/a</td>
<td>Uganda</td>
<td>Health care</td>
<td>Abraaj Group</td>
</tr>
</tbody>
</table>

Sources: AVC, EMPEA, company websites, web searches

Deals include those with disclosed deal values of US$80m or more and some landmark publicized deals with undisclosed deal values.

**PE spreading wings beyond South Africa**

South Africa has traditionally received the bigger slice of PE investments in Africa. Between 2008 and 2010, South Africa received 57% of the total PE deal value in Sub-Saharan Africa and accounted for 44% of the number of investments. However, in the last couple of years there has been a gradual shift toward other countries, particularly in East and West Africa. In 2011-13, South Africa received just 20% of the overall PE investment in Sub-Saharan Africa and 19% in terms of deal volume. Even excluding the IHS and Delonex transactions, South Africa’s share of the Africa PE market is declining.

This trend toward investment outside South Africa is expected to continue. East Africa (consisting of Kenya, Tanzania, Uganda, Rwanda and Burundi) will be attractive partly because it is doing more than most other African regions to become integrated, thereby facilitating easier cross-border activity and attracting investors. North Africa should see a stabilization and resurgence of PE investment as the political situation evolves. The increasing middle-class consumers in countries in West Africa should continue to attract PE investment targeting the FMCG market, financial services and other consumer-driven sectors.

**Deal sizes remain relatively small**

Many of the PE investments in Africa go into businesses owned by families or entrepreneurs, and these tend to be smaller companies. The average size of transactions in 2013 was US$60m (based on AVC’s data, which shows a total value of US$3.2b from 53 transactions with reported financial terms). Excluding the IHS and Delonex transactions, the average deal size halved to US$30m. Furthermore, many of the smaller PE deals are not announced, and hence the average deal size is likely to be even lower.

The lower deal sizes present a challenge to the larger PE firms looking to deploy larger funds across a smaller number of companies on the continent. Sectors that tend to require larger PE capital investments that are increasingly a focus for regional and global PE firms include power and utilities, oil and gas, infrastructure, and banking and financial services.

As the African PE market matures, and as the continent continues along its growth trajectory, there should be more opportunities for PE firms to put more money to work in larger deals across the continent.
Sectors linked to the rise of the African consumer, particularly those in the FMCG space, are particularly attractive to PE firms. Data from EMPEA gives the sector breakdown of PE investment in Sub-Saharan Africa in recent years. Since 2010, the banking and financial services sector in Sub-Saharan Africa has received US$772m. The consumer industry follows closely behind with US$692m. Energy and natural resources will also continue to be one of Africa’s most significant industries because of the continent’s abundant supply of commodities and continuing need for improved power supply.

**Banking and financial services see further penetration**

Investments in banking and financial services totaled US$156m in Sub-Saharan Africa in 2013. The sector accounts for nearly 13% of the capital invested by PE in the region during 2013. There have been 40 PE transactions from 2010 through 2013, with an aggregate value of US$772m, or about 19% of total PE value for the entire period. In a leading transaction of 2013, Actis invested US$95m in Paycorp Holdings (Pty.) Ltd., a South Africa-based third-party switch provider and major ATM deployer and service provider.

**Media and telecom infrastructure also gaining traction**

Investments in media and telecom infrastructure totaled US$1.232b in Sub-Saharan Africa in 2013 (including the IHS investment). Excluding the IHS investment, the amount totaled US$197m. The sector has seen nine PE transactions from 2010 through 2013, but the small deal count has yielded an aggregate disclosed value of US$1.399b, or about 9% of total PE investments for the entire period.

The US$1.035b Emerging Capital Partners-led follow-on investment in IHS Mauritius Ltd. was a significant boost for this sector in 2013. The telecom sector witnessed other notable deals, such as Capital International’s US$195m investment in Eaton Towers, a London-based infrastructure-sharing company that owns and manages telecom towers across Africa. Helios Towers Africa, backed by Helios Investment Partners, has announced the acquisition of 1,140 telecoms towers from Vodacom Tanzania. Furthermore, it was reported that Emerging Capital Partners’ portfolio media and telecom company Wananchi Group may seek a fresh round of funding of US$50m to US$100m.

Going forward, the sector may heat up further. Business Monitor International suggests that telecom operators Etisalat and Airtel...
may finally agree to outsource the management of their tower sites because of high costs and competition from operators that have already adopted this strategy in markets, such as Tanzania, Kenya, Côte d’Ivoire and Nigeria. Etisalat and Airtel reportedly own around 5,000 and 18,000 towers, respectively, across Africa.

**Energy and natural resources also significant**

Investments in energy and natural resources totaled US$747m in 2013 in Sub-Saharan Africa, the majority of which consisted of Warburg Pincus’ Delonex transaction. There have been 27 PE transactions from 2010 through 2013, with an aggregate value of US$1.2b in this sector. The sector has also been attractive to global PE firms such as The Blackstone Group, which has been active in this space since 2004. In 2012, the firm invested US$116m to build Bujagali Hydroelectric Power Station in Uganda. Blackstone further plans to invest US$3b in the next few years to build more hydroelectric plants in places such as Tanzania, Rwanda and Ethiopia to improve power supply on the continent.

**Prospects for the medium term**

Going forward, PE investments in Africa at the larger end of the deal size spectrum are expected to become more competitive as PE firms pursue relatively few larger deals available in the continent. There will be opportunities in the power production space as privatization takes place in Nigeria, and also in the banking and financial services sector, where PE firms are likely to get involved as the Government starts to divest its holdings in financial institutions that it obtained under the Asset Management Corporation of Nigeria (AMCON) program. While PE will continue to focus on consumer-backed sectors, such as financial services, FMCG, agribusiness, retail, education and health care, sectors such as power, logistics and infrastructure will also attract investment as increasingly wealthier populations will require the development of the continent’s infrastructure.

**Figure 15. Total PE investments by sector in Sub-Saharan Africa, 2010-Q3 2013**

![Diagram showing total PE investments by sector in Sub-Saharan Africa, 2010-Q3 2013](image)

- **Media and telecom infrastructure**: US$1,399m
- **Energy and natural resources**: US$1,200m
- **Banking and financial services**: US$772m
- **Consumer**: US$692m

Source: EMPEA (data at Q3 2013), plus US$1.035b IHS investment has been added to media and telecom infrastructure
Exits

Recent research by EY and AVCA on PE exits in Africa found 118 full exits by PE firms between 2007 and 2012.

The peak for exit activity in terms of volume was in 2007. This followed a couple of lean years for exits in 2008 and 2009 in the immediate aftermath of the credit crunch. Since 2010, exit activity recovered to average around 28 exits per year in 2010 to 2012.

However, 2013 has been relatively more subdued in terms of exit activity. Contributing to this relatively quiet year could be external events, such as uncertainty over the US Federal Reserve tapering its quantitative easing policy, caution among trade buyers in Europe because of subdued regional economic growth, and a slowdown in growth in China and India (both key trading partners for Africa). The predominant exit route in Africa continues to be via trade sales. Many of the exits in 2013 were through M&A, including Abraaj Group’s sale of HFC Bank Ghana to Republic Bank of Trinidad and Tobago, and Actis’ sale of DFCU to Norfund and Rabo Development.

IPOs have remained a less frequent exit route in Africa primarily because of the relatively small size of many stock markets outside of South Africa. Examples of IPOs in recent years include the listing of Abraaj Group-backed UAP Holdings on the Kenyan OTC stock market in 2013, Abraaj Group-backed Computer Warehouse Group on the Nigerian Stock Exchange and Actis-backed Umereme’s partial exit through dual listings on the Uganda Securities Exchange and Kenya Stock Exchange in 2012. However, given the size of some of the investees in the current African PE portfolio, we expect to see an increase in IPOs in the near to medium term.

Figure 16. Selection of PE exits announced or completed in Africa in 2013

<table>
<thead>
<tr>
<th>Company</th>
<th>Exiting PE firm</th>
<th>Country</th>
<th>Sector</th>
<th>Exit route</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Properties</td>
<td>Actis</td>
<td>Tanzania</td>
<td>Real estate development</td>
<td>Sale to PE firm</td>
<td>Sanlam</td>
</tr>
<tr>
<td>Compagnie Miniere de Touissit</td>
<td>Emerging Capital Partners</td>
<td>Morocco</td>
<td>Metals and mining</td>
<td>Strategic sale</td>
<td>OSEAD, GMM’s parent company</td>
</tr>
<tr>
<td>DFCU</td>
<td>Actis</td>
<td>Uganda</td>
<td>Banking and financial services</td>
<td>Strategic sale</td>
<td>Norfund and Rabo Development</td>
</tr>
<tr>
<td>Express Life Insurance</td>
<td>LeapFrog Investments</td>
<td>Ghana</td>
<td>Financial services</td>
<td>Strategic sale</td>
<td>Prudential</td>
</tr>
<tr>
<td>HFC Bank</td>
<td>Abraaj Group</td>
<td>Ghana</td>
<td>Financial services</td>
<td>Strategic sale</td>
<td>Republic Bank Ltd.</td>
</tr>
<tr>
<td>MTN Côte d’Ivoire</td>
<td>Emerging Capital Partners</td>
<td>Côte d’Ivoire</td>
<td>Telecommunications</td>
<td>Other</td>
<td>Planor Capital International</td>
</tr>
<tr>
<td>Opalia Pharma S.A</td>
<td>Abraaj Group</td>
<td>Tunisia</td>
<td>Pharmaceuticals and biotechnology</td>
<td>Strategic sale</td>
<td>Recordati SpA</td>
</tr>
<tr>
<td>OSEAD Maroc Mining</td>
<td>Emerging Capital Partners</td>
<td>Morocco</td>
<td>Metals and mining</td>
<td>Sale of shares on listed exchange</td>
<td>N/A</td>
</tr>
<tr>
<td>Reatile Timrite (Pty) Ltd.</td>
<td>Standard Bank Private Equity</td>
<td>South Africa</td>
<td>Diversified industrial products</td>
<td>Strategic sale</td>
<td>Thebe Mining Resources</td>
</tr>
<tr>
<td>UAP Holdings</td>
<td>Abraaj Group</td>
<td>Kenya</td>
<td>Banking and financial services</td>
<td>IPO</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Sources: PE firm websites, other internet searches. Date of announcement is used when date of exit is unknown.
How do PE firms support value creation in investee companies?

EY and AVCA released research in April 2013* that looks at how PE firms created value in (exited) portfolio companies in Africa across the transaction spectrum, from opportunity identification to final exit.

Our study found that PE exits in Africa outperform public markets in aggregate, partly because PE firms add value over and above the simple provision of capital in support of the operational and strategic growth of businesses.

Some of the ways in which PE firms support value creation include:

• **Networks**: Firstly, PE firms actively leverage their extensive networks to bring in additional skills/expertise to the company, identify acquisition targets, help with regulatory requirements, introduce potential clients, and identify future partners for the business.

• Two-thirds of PE firms provided companies with access to their networks.

• Companies that had access to PE firms networks posted over twice the returns (2.4x) than those that did not.

• **Partnering**: Secondly, PE firms work in partnership with the management teams/entrepreneurs of companies they back, ensuring the cross-fertilization of ideas and the transfer of skills/knowledge from the PE team to the company.

• 89% of PE-backed companies backed incumbent management teams.

• Those where incumbent management were backed posted returns about a fifth higher than those where new management was brought in from the start. However, changes in the management of the company were more likely to be made at the board level, with new directors brought in to help drive the strategic direction of the company.

• **ESG**: Thirdly, PE firms are instrumental in driving improvements in the environmental, social and governance (ESG) policies of firms in areas such as financial reporting and protocols, management incentive schemes, improvements in health and safety, and establishing community projects such as clinics.

• The vast majority of companies (85%) experienced some governance changes.

• This contributed to them posting nearly twice the returns (1.9x) as those where no governance was changed (usually in listed companies where their ability to drive changes in ESG were limited).

• PE firms are also instrumental in changing the “E” and the “S.” Examples include bringing in Black Economic Empowerment shareholders into companies, improving health and safety by introducing labor initiatives, and establishing community projects, such as clinics.

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*Our second annual report on value creation in Africa will be launched at the end of March 2014.
Outlook

Growth momentum expected to continue
Africa continues to demonstrate strong fundamentals that signal continued growth in the medium term, even in the presence of uncertainty over the US Federal Reserve’s quantitative easing policy, continued austerity and slow growth in Europe, and concerns over slowing growth in China and India. Continued improvements in governance, greater political stability and a commitment by governments to create environments in which companies can do business more easily should further support this growth.

Sectors benefiting directly and indirectly from the growth of the African consumer should continue to attract much of the investment targeted at the region, although infrastructure, real estate and natural resources are increasingly a focus for PE firms, particularly for larger value investments.

Markets outside South Africa will continue to gain a greater share of PE investment. Relatively low PE penetration and smaller entry multiples relative to developed economies and most other emerging markets mean that PE firms will be able to continue to make investments in small companies, although there will be greater competition at the larger end of the deal size spectrum.

Africa, with a large number of private companies requiring growth capital and limited availability of alternative funding, should continue to provide PE firms with significant opportunities for profitable investment.
Unlocking value in Africa

EY Africa

Many companies that have been doing business across Africa for decades understand the real risks and opportunities associated with the continent. These companies invest in Africa for growth. We are ourselves among such investors. We do not simply analyze from the sidelines, but we actively drive our growth and integration journey in Africa.

While this journey has not been without its share of challenges, we have been successfully doing business on the continent for 163 years. EY has a highly integrated representation in 33 countries across Africa. This immense achievement has been described by media as “one of the biggest changes in the accounting profession in more than 100 years.”
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