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The investment potential of sub-Saharan Africa

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- Our African reach and experience

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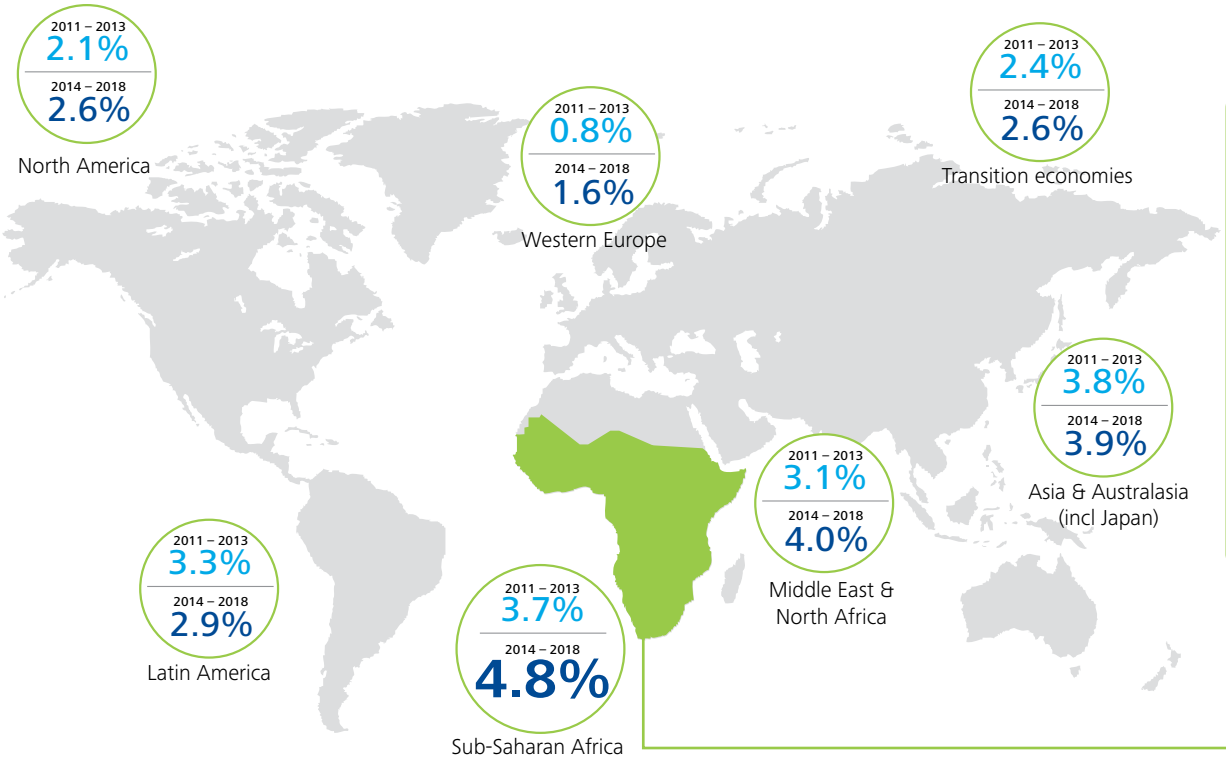
Macroeconomic overview

Sub-Saharan Africa is anticipated to lead global economic growth



Sub-Saharan Africa is forecast to be the fastest growing region in the world over the next five years as measured by projected GDP growth rates

Historical GDP% Forecast GDP%

Source: EIU

Sub-Saharan Africa is considered an attractive investment region fuelled by its strong projected economic growth

Key drivers of economic growth:

- Rising household spending and growth in Foreign Direct Investment
- Growing opportunity for investments in Africa's natural resources
- Growth of demand in the domestic markets due to rise in the lower middle-class population
- Gradual normalisation of activities in conflict countries

Gross Domestic Product (GDP) of the region is expected to grow by 4 to 6% over the next few years, driven by rising household spending and expansion in domestic markets.

An extension of domestic markets is expected to be driven by large swathes of the population joining the ranks of the lower middle class.

Governments are driving efforts to tackle infrastructure bottlenecks as well as demonstrating commitment to improving the regulatory environment.

These market conditions have the potential to provide high returns for companies, which can overcome the currently complicated political environment and difficult regulatory climate.

East Africa is expected to lead the way in terms of GDP (US$bn) growth until 2015, with West and Central Africa close behind

Franc zone*

	2010	2013	2015 forecast	2013 – 2015 CAGR
Population (m)	139.3	151.2	159.5	2.7%
GDP (US$bn)	139.9	174.3	192.0	5.0%
GDP per head (US$)	989.9	1 152.8	1 203.8	2.2%

** Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea-Bissau, Mali, Niger, Senegal, Togo*

Central & West Africa

	2010	2013	2015 forecast	2013 – 2015 CAGR
Population (m)	274.6	296.5	311.8	2.5%
GDP (US$bn)	426.8	598.8	692.5	7.5%
GDP per head (US$)	1 554.3	2 019.6	2 221.0	4.9%

** Cape Verde, Democratic Republic of the Congo, The Gambia, Ghana, Guinea, Liberia, Mauritania, Nigeria, São Tomé and Principe, Sierra Leone*

East Africa

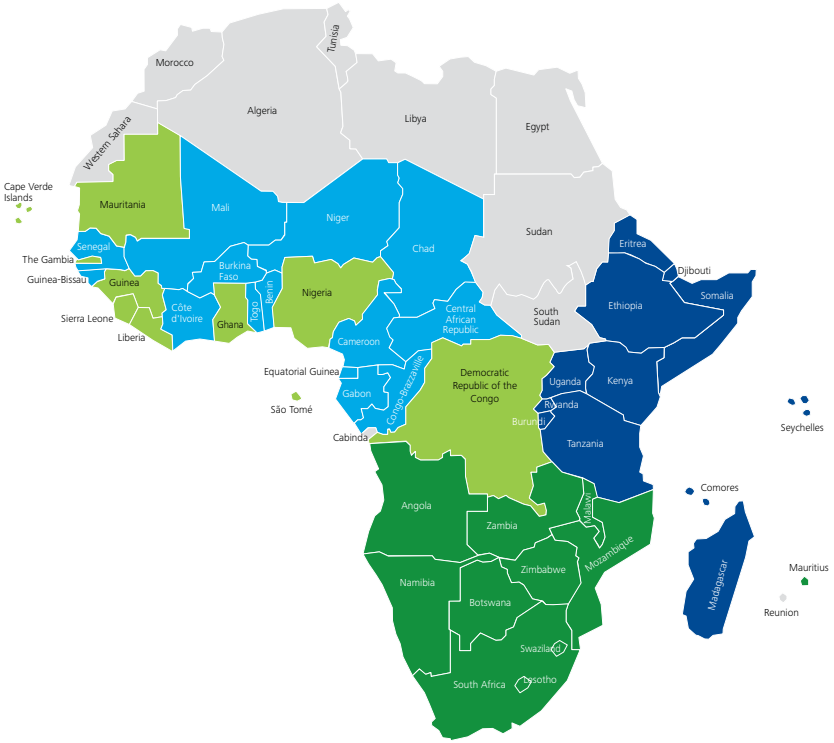
	2010	2013	2015 forecast	2013 – 2015 CAGR
Population (m)	264.0	287.8	305.0	2.9%
GDP (US$bn)	122.1	173.5	203.6	8.3%
GDP per head (US$)	462.5	602.8	667.5	5.2%

** Burundi, Comores, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Seychelles, Somalia, Tanzania, Uganda*

Southern Africa

	2010	2013	2015 forecast	2013 – 2015 CAGR
Population (m)	144.7	153.0	158.4	2.3%
GDP (US$bn)	526.8	580.6	680.8	6.6%
GDP per head (US$)	3 640.6	3 794.8	4 298.0	4.2%

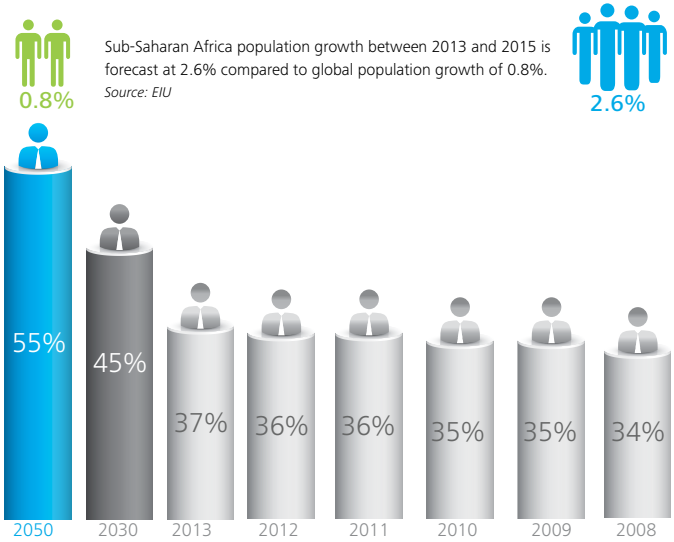
** Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe*



Source: EIU

Increases in population size, urbanisation trends and technology usage will drive economic growth in sub-Saharan Africa

Sub-Saharan Africa – urbanisation trends (% of population)



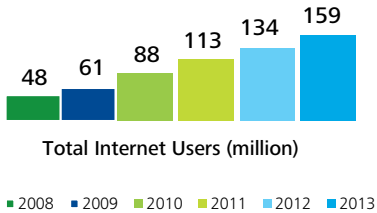
Sub-Saharan Africa population growth between 2013 and 2015 is forecast at 2.6% compared to global population growth of 0.8%.
Source: EIU

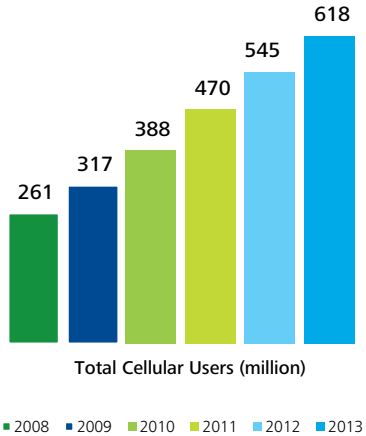
Source: World Bank, United Nations, Department of Economic and Social Affairs, Population Division

Six of the ten countries with the highest urbanisation rates in the world are in sub-Saharan Africa (2013).

Nigeria has the ninth-largest urban population in the world, surpassing 80 million in 2013. It also ranks as the country with the most urban dwellers in all of Africa.

Internet and cellular users – sub-Saharan Africa





M&A activity in Africa

The rise in middle-class population and abundant natural resources are key drivers for investments in the region

Abundant natural resources

In addition to known natural resources, new energy and resource (E&R) discoveries are being made in resource-rich countries, including Kenya, Sierra Leone and the Democratic Republic of the Congo.

Demand for high-quality financial services

A lack of financial products and services is likely to drive opportunities for investors to set up FSI infrastructure to cater for a rise in middle-class population.

Undervalued targets

Investors are looking for undervalued companies that would provide high returns with attractive prices.

Improved macroeconomic policies and well-regulated markets

Countries implementing better macroeconomic policies and well-regulated markets would increase investors' interest in the region.

Cash-rich acquirers in Africa expanding into other parts of the region

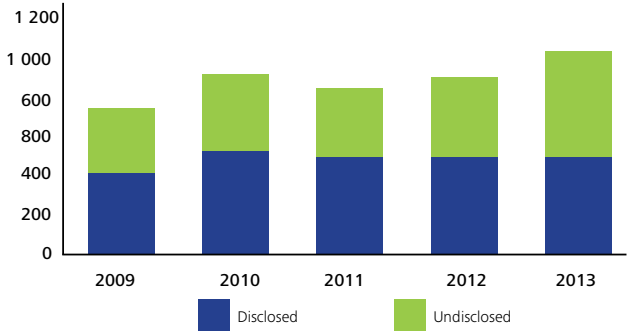
Countries, such as South Africa, have numerous cash-rich corporate acquirers who are likely to drive domestic deal activity with companies looking to increase their topline and profitability.

Surge in the middle class driving strong household spending

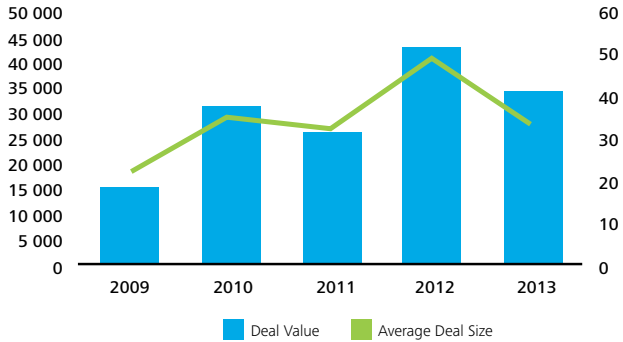
The recent surge in the middle-class population segment and the increase in household spending are key drivers for investment in sectors such as consumer business.

Deal activity in sub-Saharan Africa has been increasing due to the potential of high investment returns, stabilising economies and untapped resources

Number of deals in Africa – Total (2009–2013)



Deal value – Total and average deal size (US$m, 2009–2013)



Source: Capital IQ

Sub-Saharan Africa

FDI Investment Stock (US$m):
FDI stock is the value of total foreign direct investment (comprising equity, reinvested profits and debt advanced by the parent entity) in the region and is reflected net of inflows and outflows.

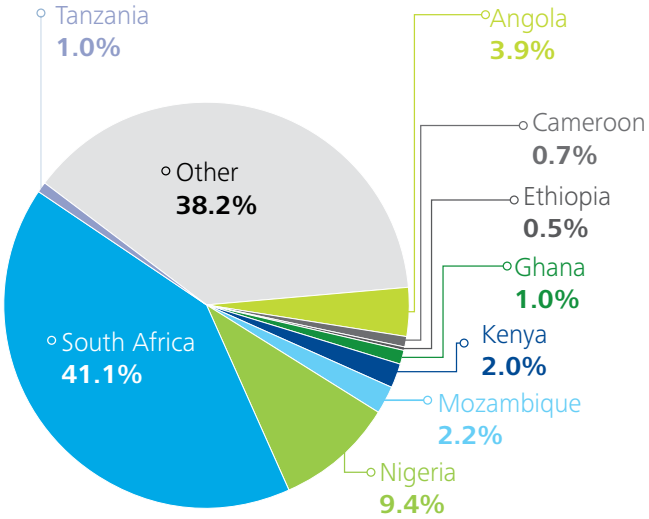
• 2013	474 321
• 2012	457 094
• 2011	423 414

5.8%

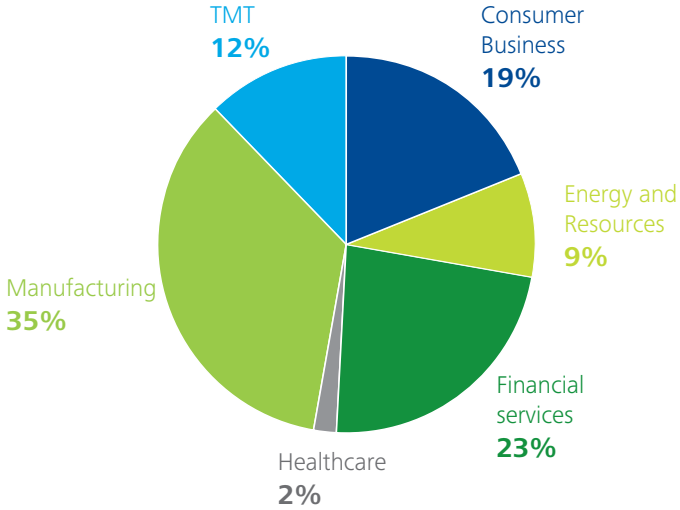
Source: UNCTAD

M&A activity has been focused on South Africa and Nigeria within the manufacturing, financial services and consumer business sectors

Deal value – By key countries (%, 2009–2013)



Number of deals – By key sectors (%, 2009–2013)



Source: Capital IQ

Africa has seen significant M&A activity from large international investors implementing their global growth strategies

2007

Industrial and Commercial Bank of China and Standard Bank

- In 2007, the Industrial and Commercial Bank of China purchased a 20% stake in Standard Bank which operates across 20 African countries.
- The investment of USD5.5bn was the largest foreign direct investment in South Africa at the time.

2010

Nippon acquisition of Dimension Data Holdings

- 100% of the Johannesburg and London listed information technology company was acquired by Nippon for USD3.4bn.

2011

Jinchuan Group International acquisition of Metorex Limited

- The 2011 acquisition of the South African listed miner by China's Jinchuan Group was made with the view to acquire, develop and operate African copper and cobalt projects.
- Deal value was approximately USD1.4bn.

2012

Walmart acquisition of Massmart

- During 2012, the acquisition by American retailer Walmart of 51% of Massmart for USD2.4bn was approved.
- Massmart is the second-largest distributor of consumer goods in Africa and operates in 12 countries across sub-Saharan Africa.

Mutanda Mining Sarl acquisition of Kansuki Sarl

- Mutanda Mining Surl paid USD3.0bn for 100% of the mining company based in Congo (Brazzaville).

2013

Barclays Bank and Absa merger

- During 2005, Barclays paid approximately USD5.5.bn for a 55% stake in Absa, at the time the largest retail bank in Africa.
- In 2013, Barclays increased its interest in ABSA Group to 62.3% along with the reorganisation of the bank's African operations under Barclays Africa Group.
- The transaction was worth approximately USD1.8bn.

2014

Marriot International and Protea Hospitality Group

- During 2014, Marriott International completed the acquisition of the 116 hotel Protea Hospitality Group in South Africa for approximately USD200m.
- Protea operates hotels in South Africa, Namibia, Kenya, Malawi, Tanzania, Uganda and Zambia.
- Post transaction, Marriot became the largest hotel company in Africa according to published information.

The Carlyle Group, Blackstone Group and Dangote Industries partnership

- During the inaugural US-Africa investment summit in 2014, a partnership between the world's two largest private equity firms and one of Africa's largest companies was announced.
- The partnership will aim to invest USD5bn in Africa's energy sector and specifically in power projects across sub-Saharan Africa over the next five years.

Common M&A challenges in Africa

Although the potential opportunity and investment return is high, key challenges are faced when executing M&A activity in Africa

Financial disclosure and due diligence

Generally, there is limited financial disclosure, both for listed and unlisted companies operating in the region, which means that access to valid, accurate, complete and reliable financial information can fall short of investor expectations. This lack of certain information makes it essential that an extensive diligence process be followed with an experienced team.

Local ownership requirements

Many countries have adopted, or are in the process of adopting, citizen empowerment laws, which typically require a minimum percentage of local shareholder ownership. The challenge though is that local shareholders are often unable to raise required funds especially in capital-intensive projects.

The right partner

While this is important in most transactions, it is especially critical when the local partner is relied upon to drive local relationships and is likely to have a longer-term involvement in the business. Deficiency of such local partners may act as an obstacle for the investors. It is equally important for investors to work with advisors whom they know and trust, have local knowledge and an on-the-ground presence, which are vital for implementing transactions.

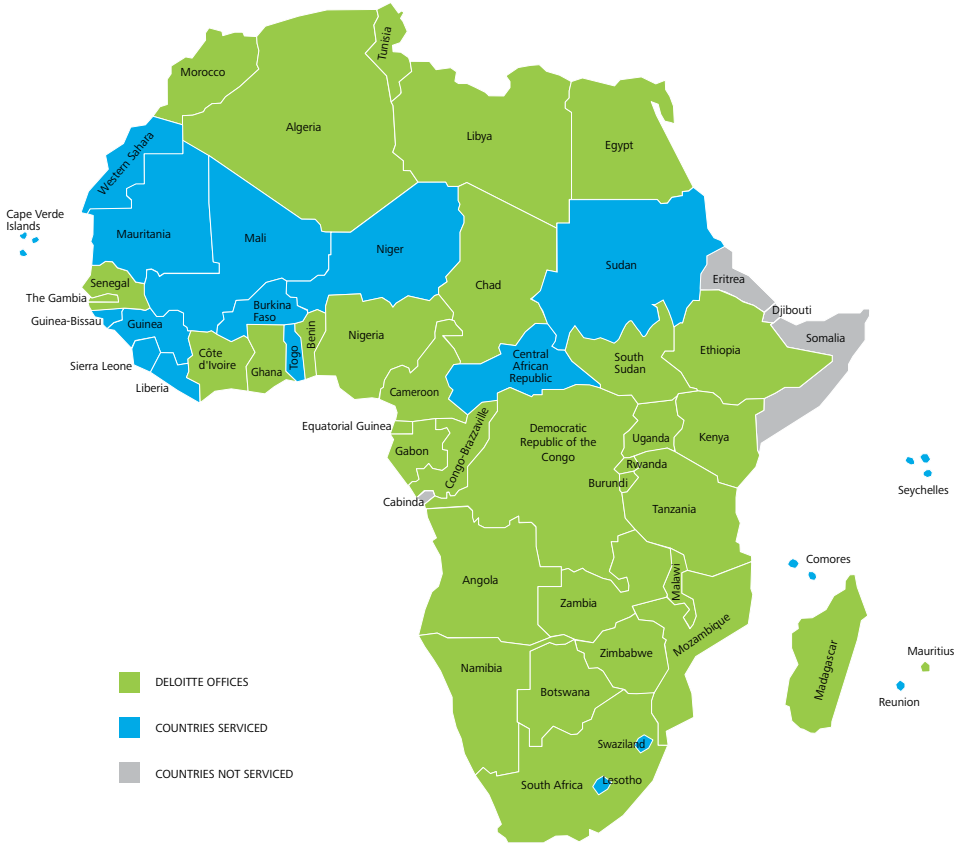
The political environment and stability

In sub-Saharan Africa, it is important to maintain awareness of noteworthy events such as elections and to understand their potential effect on the transaction timetable. Investors are required to have an understanding of the political association of the major stakeholders involved in the transaction, both business partners and regulators that may need to approve the transaction.

Our African reach and experience

Leveraging on 29 integrated offices in Africa, we have advised on complex projects and transactions across the continent

Deloitte footprint in Africa



Our key client base comprises large corporates and development funds who make use of our services on multiple transactions across Africa

Crown Jewel Clients in Africa

1	GlencoreXstrata
2	The Bidvest Group Limited
3	Vodaphone Plc
4	Imperial Holdings Limited
5	Mondi Limited
6	Hollard Insurance
7	Compass Group
8	Steinhoff International Holdings Ltd
9	Firstrand Limited
10	Barloworld Limited
11	Sappi Limited
12	The Spar Group Limited
13	Prudential (insurance)
14	Nedbank Group Limited
15	Murray And Roberts Holdings Limited
16	South African Airways
17	Edcon Holdings Limited
18	Oando Plc
19	Flour Mills Of Nigeria Plc
20	Eco Bank Transnational Incorporated
21	Sibanye Gold Limited
22	Nampak Limited
23	Dangote Group
24	African Bank Investments Ltd
25	Grindrod Limited
26	General Motors
27	Bharti Airtel Nigeria
28	Julius Berger Nigeria Plc
29	Illovo Sugar Limited
30	Reunert Limited
31	Conoil Plc
32	Eqstra Holdings Limited
33	PPC Limited
34	UTI
35	Mpact Limited
36	Alexander Forbes
37	Actom
38	Bell Equipment Limited
39	Basil Read Holdings Limited
40	Barclays Africa Group Limited
41	Sasol Limited
42	Standard Bank Group Ltd
43	Naspers Limited
44	Transnet
45	Aveng Ltd
46	MMI Holdings Ltd
47	Investec Limited
48	Telkom SA SOC Ltd
49	Gold Fields Limited
50	Mediclinic International Limited
51	Distell Group Limited
52	Tongaat Hulett Limited
53	Exxaro
54	Adcorp Holdings Limited
55	Dept of Defence & Military Veterans
56	Nestle
57	African Rainbow Minerals Limited
58	Department For International Development
59	Econet Wireless Zimbabwe Limited

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