2016 Africa Private Equity Confidence Survey
More capital being deployed – what about returns?
Deloitte in Africa

Our 353 partners and 4,864 professional staff serve clients across the African Continent.
Deloitte is pleased to present to you the 2016 Africa Private Equity Confidence Survey (PECS).

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.

African Private Equity (PE) markets have grown exponentially in recent years and, going by the results of the 2016 Africa Private Equity Confidence Survey, this trend will continue, albeit at a slower pace. An overwhelming majority of respondents across all three regions surveyed – Southern, East and West Africa – expect PE activity to increase in the next 12 months. Outside of South Africa, the region’s generally shallow capital markets and nascent stock exchanges mean PE remains a “natural” asset class for investors interested in Africa’s frontier and emerging markets. This is providing support for the industry and, as one of the world’s largest PE firms recently declared, “We’re not even in Chapter One of Private Equity in Africa. It’s more like the Prelude. We hope all the major firms will be there in five to 10 years.”

However, opportunities are not evenly spread. There is optimism about East Africa’s favourable economic climate but pessimism about West African prospects on the back of fiscal deficits, low oil prices and rising security tensions. Southern Africa’s economic climate is expected to remain relatively unchanged with lethargic growth in South Africa, its engine room, offset somewhat by growth in Namibia and Mozambique.

Unsurprisingly, respondents believe the fundraising environment will improve on the back of more success stories out of Sub-Saharan Africa (SSA), supported by an increase in awareness of PE as an asset class with several large pension funds opening up to its possibilities for the first time.

It is no surprise then that increased competition for quality deals is expected to drive up asset prices over the medium term. New opportunities in rapidly expanding markets like Côte d’Ivoire, Ethiopia and Tanzania will bolster traditionally favoured PE destinations like Kenya, Nigeria and South Africa.

But the environment is not without challenges. PE firms continue to struggle with a lack of quality deal flow, human capital challenges and, often, a lack of sophistication in potential acquisitions and portfolio companies.

On balance, the picture is positive but the perennial question remains: will the increased levels of confidence and capital being deployed be rewarded with the required returns?
Foreword from SAVCA

New perspectives provided by research such as the Africa Private Equity Confidence Survey are immensely valuable in deepening knowledge and understanding of the asset class in sub-Saharan Africa. The Southern African Venture Capital and Private Equity Association (SAVCA), whose mission it is to promote private equity, is pleased to note the outlook for expanding industry activity by managers based in Southern Africa.

As indicated by the survey, managers in the Southern African region expect to devote a sizeable portion of their time on sourcing and managing new investments – a finding which is consistent with the hugely successful fund raising track record of the industry over the past two years.

While macro-economic conditions in the region and beyond continue to represent challenges for investors and for portfolio companies, the industry has a solid footing in its substantial track record, its depth of skills and its access to capital. This resilience and strength will ensure a steady navigation through the coming months.

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

Foreword from EAVCA

EAVCA is delighted to support the Deloitte Private Equity Confidence survey once again. Following on from the success of last year’s inaugural sub-Saharan Africa wide survey, Deloitte has continued to provide us with useful insights into the confidence levels of investors in the sub-Saharan African PE space who continue to take a long term view of the region.

Although several parts of sub-Saharan Africa have been impacted negatively by the significant shock to commodity prices, the research shows us that Private Equity is continuing to grow and mature particularly across East Africa – a net beneficiary of this - whose macro-economic fundamentals remain favourable and which therefore continues to fuel interest and create a compelling investment case.

Investors are continuing to look keenly at the regional countries particularly Ethiopia with its large market presenting a key consumer investment opportunity. Tanzania and Uganda continue to attract investments given the still low penetration. However, it can be expected that as the industry continues to grow and mature competition for deals will increase driving entry multiples higher. The outlook shows that asset backed, consumer and service related sectors continue to drive the increase in PE activity with key sectors across East Africa including financial services, manufacturing, Fast Moving Consumer Goods, healthcare and retail.

EAVCA would like to thank Deloitte Africa in particular Gladys Makumi and her team for their work in producing this research.

Nonnie Wanjihia Burbidge
Executive Director
We are pleased to present the Deloitte Africa Private Equity Confidence Survey (PECS). This follows 2015’s inaugural Africa Private Equity Confidence Survey.

This survey focuses on 3 regions: East Africa, West Africa and Southern Africa, and is carried out by leveraging on our Africa-wide network and presence of Deloitte in Africa. The PECS provides a consolidated perspective on how private equity and venture capital practitioners see the current landscape and what their future expectations are.

The survey was carried out between December 2015 and March 2016 and was targeted at General Partners (GPs) and Limited Partners (LPs) operating in the three regions. We received 101 usable responses. The number of responses from LPs was too small for us to draw conclusions, but we were able to include some of their insights in this report.

The questions we put to respondents were similar to those asked in previous surveys, with a few region-specific questions added, and covered the following key themes: PE Market Outlook, Economic Climate, PE Deal Activity, Fundraising Environment, Exit Environment and Challenges faced by PE Players in the different markets.
West African respondents have identified the following focus areas for investment: Food, Agriculture, Healthcare and Pharmaceuticals.
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2016 promises to be another year of economic adjustment for most African economies as terms of trade turn negative following the end of the so-called commodity super-cycle.

Economic headwinds are often compounded by governments unwilling to carry out overdue structural reforms. Yet we are beginning to see many countries turn the corner, led mainly by public sector reforms. Post-election Tanzania was the real surprise in 2015. It's early days for the new administration but, moves to fight corruption and government lethargy are very promising indeed. Kenya too can turn a corner if its leadership shows a greater commitment to fighting corruption and continues providing an enabling business environment. Oil-propelled economies in western Africa arguably face the greatest reform difficulties. Economies such as Nigeria and Angola remain overly dependent on a single commodity (oil) and are now suffering severe corrections which are crimping their growth outlooks. Rapidly decelerating growth in these economies make it abundantly clear that Africa cannot continue to rely on commodities for growth and (often insufficient) trickle down development. A change to this tired model is overdue. New contributors to growth that will be more inclusive in nature are required, with manufacturing and services the best options for driving this diversification.

Perhaps 2016 will be the year that African states finally shake off tired ideologies, invest in human capital and begin pragmatic reform paths that will emulate what Asian economies did three decades ago. The route to inclusive growth is one of diversification which benefits entire populations.

Commodity-driven economies can no longer rely on cycles for their growth spurts. In a post China-driven commodity super-cycle world, sustainable and consistent growth can only come from economies that are driven by ideas rather than resources. This will, increasingly, be the differentiator between economies that succeed this year and those that don't.
Overall Private Equity Activity

The majority of respondents across all three regions expect PE activity in Africa to increase over the next 12 months. This is similar to the 2015 Africa Private Equity Confidence Survey. However, for the first time, 5% of respondents in East Africa and 7% of respondents in Southern Africa expect PE market activity to decrease. Overall confidence regarding general PE market activity over the next 12 months seems marginally lower.

Despite 5% of respondents in East Africa indicating that they expect PE activity to decrease, the market outlook remains similar to that in the 2015 PE Survey. The region’s fairly stable economies and solid infrastructure spending by governments make it a popular destination for PE investment. This is supported by interest from international PE funds and new locally-raised funds from the past year which should lead to an increase in deal activity.
The commodity rout is expected to continue into 2016, this will continue to affect African currencies and adversely impact local currency valuations. In addition, the US Fed, is expected to raise rates further which would result in capital reallocation to safer havens.

Historically, PE funds have opted to invest in asset-backed industries in East Africa including manufacturing, healthcare and retail, and this trend is expected to continue with increased opportunities in the financial services industry. There has also been increased PE investment in the consumer business space, especially in the Fast Moving Consumer Goods (FMCG) sector, driven by the growing population and the rising middle class.

In West Africa, despite significant political, macro-economic and exchange rate risks, no respondents expect a fall in PE market activity over the next 12 months. The number of West African respondents expecting an increase in PE market activity has however decreased from 83% in 2015 to 56% in 2016 while respondents expecting activity to remain the same increased from 17% in 2015 to 44%. Could the potential upside return from depressed asset prices and a turnaround in commodity prices and exchange rates, coupled with lengthened investment horizons, be a motivating factor for the observed market outlook from West African PE firm respondents?

The overall PE market activity outlook for Southern Africa is expected to remain fairly stable but, again, negative sentiment, especially in South Africa, is more apparent. Respondents cited low growth expectations for the South African economy, concern for a ratings downgrade and politics as their main causes for concern.
Over the past twelve months, we have spent the majority of our time on:

Focus Area
Over the past twelve months, the majority of time spent by respondents across all regions was on raising new funds, finding new investments and helping portfolio companies grow.

In East Africa, time spent focusing on growth over the past 12 months fell from 69% to 52% in order to free up time to focus on fundraising and refinancing, which increased from 25% to 48%. With more than half the time still focused on deploying capital, this remains the main focus of PE funds in the region. Driving this is the expectation that the economic environment will improve further. In addition, a number of East African focused funds are nearing maturity and they have already started raising new funds for investment.

In West Africa, time spent on finding new investments fell from 54% to 20% with the time saved being focused internally. Of interest is that more time has had to be allocated to refinancing and restructuring investee companies. This was not the case last year and is more significant in West Africa than any of the other territories. In the past 12 months, 30% of the time in West Africa was spent raising new funds and another 30% was deployed on helping portfolio companies grow. This is in contrast with last year where more than half the time was spent looking for new investments, and 31% of available time was spent raising new funds. The increase in time spent helping portfolio companies grow could be the result of depressed economic growth due to the commodity price slump and weakened exchange rates. PE firms with investments in West Africa seem to have shifted their focus internally in an attempt to improve cash flows in their portfolio companies by spending more time on restructuring and refinancing. The key focus is now on survival in times of economic stress and distress. It appears that investors are focused on optimising their investments, hence the renewed emphasis on helping their portfolio companies grow, restructure or re-finance.

Some 46% of the time spent by Southern African respondents over the past 12 months remained focused on new investments while 26% was spent helping portfolio companies grow. This is similar to what respondents said in last year’s survey.

Time spent helping portfolio companies improve corporate governance and management practices remained insignificant across all three regions.
Sub-Saharan Africa (SSA)

According to the World Bank, SSA growth slowed to 3.4% in 2015 compared to 4.6% in 2014. The deterioration of global market conditions and the decline in commodity prices impacted negatively on economic performance.

Growth deceleration was most pronounced in commodity-exporting countries including Equatorial Guinea, Congo-Brazzaville, Nigeria and Botswana as well as in crisis-ridden Burundi and South Sudan.

The International Monetary Fund (IMF) cut its 2016 economic growth forecast for SSA from 4.3% to 3% on the back of continuing low commodity prices and the sluggish policy response by governments in commodity-exporting countries. The ongoing economic slowdown in Nigeria and South Africa, two of the continent’s largest economies, has contributed to the downward revision of SSA’s growth outlook. The drying-up of government revenues on the back of low commodity prices has put additional pressure on the fiscal balances of many countries, limiting the ability to introduce counter-cyclical measures to support economic growth.

East Africa

East Africa’s economies are expected to register slightly lower but still robust growth in 2016. Droughts and slowing growth in key trading partners outside of the continent will weigh down growth. According to the IMF, Ethiopia (10.2%), Tanzania (6.9%), Rwanda (6.3%), Kenya (6.0%) and Uganda (5.3%) will be the fastest growing economies in East Africa in 2016.

Growth in the region is underpinned by ongoing investments in infrastructure and sound economic policies. The relatively low dependency on oil or metal exports cushioned the region’s economies from the negative impact of the low commodity prices.

The region’s overall economic growth momentum will largely depend on its ability to further reduce reliance on commodities and improve its economic diversification. To drive diversification, Kenya and Ethiopia have positioned themselves as key hubs for manufacturing on the continent.
West Africa

The IMF lowered Nigeria’s 2016 growth forecast to 2.3% from 4.3% due to ongoing low oil prices, which have remained below 50% of 2014 levels. This is severely impacting on government revenues and fiscus. Other oil-producing economies in the region share Nigeria’s experience of subdued growth due to the low oil price. Gabon’s economy is expected to continue to slow down to 3.2% growth in 2016, down from 4.0% in 2015. The economy of Equatorial Guinea, SSA’s third largest oil producer, is expected to contract by 7.4% in 2016, a slight improvement from the -12.2% recorded for 2015 by the IMF.

In contrast to the oil-dependent economies, Côte d’Ivoire and Senegal are expected to be among the strongest growth performers on the continent in 2016. The IMF expects Côte d’Ivoire and Senegal to grow at 8.5% and 6.6% respectively in 2016. This is the fastest and third fastest economic expansion for the year in West Africa. Restored stability and increased infrastructure investments in Côte d’Ivoire underpin the country’s strong performance.

Southern Africa

According to the African Economic Outlook, Southern Africa remains SSA’s weakest growth performer in 2016, with regional growth reaching 3.5%. Drought and low oil and metal prices negatively impact on growth in the majority of economies in the region. Very weak growth in South Africa, the region’s largest economy, further contributes to the subdued outlook of Southern Africa. The IMF has predicted that South Africa’s GDP growth rate will be the second slowest in Southern Africa in 2016. Policy uncertainty, drought, low commodity prices and the risk of a credit downgrade contribute to South Africa’s poor performance. Economic growth in Angola and Zambia, Africa’s second largest oil and copper producers, continue to slide as commodity prices remain low. The IMF expects Angola’s GDP growth to slow to 2.5% in 2016, down from 3% in 2015; while Zambia’s GDP growth is forecast to slow from 3.6% to 3.4%.

According to the IMF, Mozambique will remain the best performer in the region. Growth is forecast to remain above SSA’s average at 6% in 2016, only slightly lower than the 6.3% growth recorded for 2015.
East Africa

Over the next 12 months, we expect the overall economic climate to:

Overall, respondents in East Africa expect the economic climate to either improve or remain the same, aside from Burundi, which faces political unrest as a result of 2015’s controversial presidential elections. Ethiopia has the largest expectation for improvement as it has the highest growth rate in the region and a more liberal government which is allowing foreign investment in various industries for the first time. The more negative sentiment toward Kenya is the result of 2017’s looming elections, even though few political developments are expected during 2016. A more positive sentiment towards Tanzania is the result of a peaceful electioneering period and a newly elected government.

We don’t foresee any big Macro shocks especially resulting from any political events.
West Africa

Over the next 12 months, we expect the overall economic climate to:

The overall economic climate in West Africa is largely expected to remain the same despite the combined effect of fiscal deficits and declining commodity prices. Although none of the respondents expect the economic outlook in Nigeria to improve within the next 12 months, two thirds expect it to remain the same. For Ghana, none of the respondents expect an improvement within the year, and more than half believe that things will not change materially. As in Nigeria’s case, a larger percentage of this year’s respondents believe their respective economies will actually deteriorate within the year. Although some respondents still expect improvement in Cote d’Ivoire, Mali and Senegal, the number of optimistic respondents fell in comparison to last year.
Over the next 12 months, we expect the overall economic climate to:

The expected stagnation in the economic climate is more evident in the Southern African region than in either West or East Africa. South Africa’s economy is going through an interest rate hike cycle coupled with a depressed growth outlook, political uncertainty and exchange rate risks, resulting in the majority of respondents expecting a fall in South African growth rates. The Namibian economic outlook has remained relatively stable with the main fluctuations derived from an unstable exchange rate and weakening commodity prices. Namibian GDP growth for 2016 has been forecast for 5% and interest rates are expected to rise during the course of 2016.
Investment Readiness

Across all three regions, the majority of respondents expect to invest more over the next 12 months even though some exits are expected.

More East African respondents – 90% in 2016 compared to 71% in 2015 – said they expected to invest more due to the continued improvement in the economic climate and increased investment opportunities. The majority of PE firms indicated that they have raised new funds and are planning to deploy these over the next year. The lack of projected exits from deals is a result of most PE firms being in a deploy stage of their investment cycle, resulting in most funds consolidating current investments rather than looking at exit options.

Conversely, the percentage of respondents expecting to invest more in West Africa within the next 12 months has fallen from 83% to 78%. In addition, 11% of respondents now expect to exit more investments. This is not surprising given the current challenges in Nigeria, West Africa’s largest economy.

Southern African respondents show an increased expectation to invest more over the next year. Rather than a sign of confidence in the economy, this could be a symptom of the investment cycle as new funds have been raised and the capital now has to be deployed. Some PE firm investments are still expected to mature within the next 12 months which accounts for the level of exits expected. Increased investments beg the question: Will funds be able to achieve the desired returns if they invest in Southern Africa or do they need to invest outside the region?

Deal activity in Namibia is expected to increase due to new regulations which prescribe that insurance companies and pension funds must invest in unlisted investments with the implementation driven by the regulator. However, currently the funds available for investment outweigh the investment opportunities available in Namibia.

**Increase in Africa focused funds needed to be deployed. More allocation of funds to invest in the region. Vibrancy in the region especially expansion of agribusiness companies and financial services**

The market for exits is going to be tough, but our top companies will get done. We have already had significant realizations in our first fund and are looking to deploy the balance of our current dry powder while also raising new commitments for investment.
The majority of respondents indicated that they expect to invest their current funds within the next four years. This is in line with the expectation from all three regions that more will be invested over the next 12 months. However, no West African respondents expect to fully invest available funds within the next two years, further indicating that PE firms in West Africa could be extending their investment horizons as they wait for economic conditions to stabilise. PE funds in East Africa expect to invest more in the next two to four years. This is consistent with 2015’s PE Survey results wherein the majority of respondents indicated that they were in the early stages of deploying newly raised funds.
**Competition for assets**

The majority of respondents in East and Southern Africa expect competition for new investment opportunities to increase while West African respondents expect it to remain the same.

A large number of existing and new funds in East Africa expect to deploy funds over the next 12 months. Most respondents believe competition for new investment opportunities will either increase or remain the same. In addition, a number of global and Africa funds have shown interest in the region and this could be shaping the perception of increased competition.

In West Africa, there is a significant shift in the overall competitive outlook. Almost a quarter of respondents believe competition will decrease, which may be due to the increased perceived risks vs returns. No one held this view last year. The changes in the macro-economic landscape and the increase in opportunities requiring turnaround activities (something a number of PE firms are not positioned to do) may require changes to fund mandates.

In Southern Africa, 60% of respondents expect increased competition for new investments in line with the expectation that they will be investing more over the next 12 months. Respondents indicate that difficult economic conditions in South Africa will result in less attractive assets, while increased local and foreign PE funds raised should lead to increased competition for new investments. The market volatility in Southern Africa has also forced PE funds to invest conservatively in safer assets, further increasing competition and resulting in some funds seeking investment opportunities in other African regions.

We expect a decrease in FDI due to less attractive macro environment and lower levels of M&A activity from strategic investors due to weakened balance sheets.

There is an increase in the number of PE firms into the rest of the African continent. International DFI’s also have an increased appetite for investment in the continent.
Entry Multiples

The expectation of changes in asset prices over the next 12 months has changed significantly from 2015 to 2016. Macroeconomic factors and the level of competition for new investments mean the majority of West African and Southern African respondents expect entry multiples to decrease over the next 12 months as depressed economic growth forecasts weigh heavily on the investment decisions and risk appetites. East African respondents however feel that entry multiples will remain the same due to increased competition from new funds as well as increasing interest levels in the region from global and other regional players.

With increased investment opportunities in East Africa and new funds being raised both locally and internationally, one would expect entry multiples for transactions to increase. East African respondents indicate that a more conservative approach to investing has been adopted following pressure on global markets and the expensive cost of debt. Investors are simply not willing to overpay given the current global economic environment, as assets are already considered expensive. PE funds are willing to invest at the right price as they are conscious of their expected returns at exit.

The expectation that entry multiples will decrease in West Africa over the next 12 months should come as no surprise in the current economic climate. An overall decrease in competition for new investments is expected in the region as attractive assets become scarce and funds opt to shift their focus internally, spend time restructuring companies in their portfolio, and invest in other African regions with more attractive opportunities. Some PE funds adopting new investment strategies with increased investment horizons may see an opportunity to acquire depressed assets with potential upside when the economic climate in West Africa stabilises.

Southern African respondents expect a decrease in entry multiples over the next 12 months. Usually we would expect entry multiples to increase as competition for investments intensified. However, a conservative investment approach means these are expected to fall as PE funds focus on investing newly raised funds at the right price. Furthermore the uncertain economic and political environment in South Africa has increased the inherent risk of investment, resulting in some funds searching for investment opportunities in other African regions or being more conservative in their investment approach.
In case the focus will be on new investments, we expect the next 12 months to invest in the following countries:

**East Africa**

Kenya, Uganda, Tanzania and Ethiopia remain popular destinations for investment in East Africa. Kenya’s growth in popularity as an attractive investment destination attests to increased investment opportunities, primarily driven by continued government expenditure, a stable economic growth forecast and a vibrant and innovative private sector. Uganda is surprisingly ranked higher than Tanzania by respondents, which we believe is a case of regional fit, where PE players are increasingly looking to invest in assets with a presence in more than one market. Tanzania’s economic climate is expected to stabilise after the 2015 elections and could see further growth in popularity for investment in the future. However, there could be a delay in the number of actualised deals, given that the private sector is less mature than that of Kenya and Uganda. Ethiopia’s improved economic outlook, increased investor focus and new foreign investment in various industries is resulting in Ethiopia becoming a more attractive investment destination. This is because of government policy to develop infrastructure which will reduce the cost of doing business, even though there is still some level of contraction in private sector growth due to scarcity of foreign exchange.
In case the focus will be on new investments, we expect the next 12 months to invest in the following countries:

**West Africa**

Country Focus

Nigeria, Africa’s largest economy, and Ghana remain the most popular investment destinations in West Africa with investors becoming more willing to consider other countries in the region, especially Côte d’Ivoire, which has seen investor focus jump to 40% in 2016 from 31% in 2015. However, in general, the investment focus seems to have shifted away from West to East and Southern Africa.

**Southern Africa**

Country Focus

The popular investment destinations in Southern Africa have not changed significantly. The primary investment focus remains South Africa, Botswana and Namibia. South Africa and Botswana, characterised as having more stable economic and political environments, experienced a slight increase in popularity. Namibia’s 5% projected economic growth for 2016 and stable political environment resulted in increased popularity which is set to continue. Mozambique’s growth in infrastructure spending, which largely came about after finding the world’s second largest gas pocket offshore, has certainly caught the eye of PE funds and sees an increase in investor focus.
In the next 12 months, we expect to focus on opportunities in the following sector(s):

**Sector Focus: East Africa**

Driven by rising populations and middle-class growth, East Africa’s investment focus is primarily expected to be on financial services, agriculture, healthcare & pharmaceuticals, and manufacturing as PE funds mitigate risk by investing in asset-backed companies. The financial services industry is traditionally well governed and growth is driven through innovation, including online and mobile platforms. Deal activity in the financial services sector is expected to increase, especially in the Kenyan banking sector, due to the introduction of new capital requirements from the Central Bank of Kenya, which is expected to encourage consolidation and reduce the number of banks in the country.

The agricultural industry is experiencing growth as a result of increased demand from the growing population and the need to invest across the value chain. East Africa’s expanded middle class has resulted in an increased focus in the healthcare and pharmaceutical industry, while a decline in the food and beverage industry is the result of fewer investment opportunities as competition for opportunities remain high.
In the next 12 months, we expect to focus on opportunities in the following sector(s):

Sector Focus: West Africa

West African respondents have identified food, agriculture, healthcare and pharmaceuticals as key focus areas for investment. Financial services and technology, media & telecommunications (TMT) remain very popular with investors. This year no respondents indicated an interest in real estate & construction, which has historically been popular sector for investment.
In the next 12 months, we expect to focus on opportunities in the following sector(s):

**Sector Focus: Southern Africa**

Southern Africa’s primary investment focus remains largely on asset-backed industries including food & beverage, manufacturing and healthcare. Interestingly, the focus on the education sector decreased significantly as Curro Holdings Limited, a JSE listed entity that develops, acquires and manages schools in South Africa, already owns a large share of the market, making it difficult for new entrants to enter. The growth in the green energy and clean tech industry is to be expected as power outages in South Africa have historically hampered economic growth, encouraging the private sector to search for alternative sources of energy.
Company Life Stage Focus

Respondents across all three regions indicating the stage at which they will look to invest in companies remain consistent from 2015 to 2016. West Africa and Southern Africa primarily look to invest in later-stage companies with sustainable cash flows as depressed economic conditions lead to a cautious investment approach. East African respondents will look to invest in SMEs over the next 12 months, taking more risk in a region characterised as having more investment opportunities and stable economic growth outlooks.

East Africa's focus on SMEs results from a growing middle class and increased investment opportunities. The SME sector in East Africa continues to offer better growth prospects and more assets as businesses come up with innovative solutions for their customers.

Later-stage companies do not offer as many opportunities for investments in this region as these tend to be largely owned by multinationals, family firms and the government.

Respondents in West Africa indicate an increased appetite for early stage companies and SMEs. The level of increased investment focus on these is in line with the expectation that PE funds in West Africa have adopted investment strategies with longer investment horizons. Reduced interest in project finance may not be unconnected to foreign exchange challenges being encountered by Nigeria, the largest economy in the region.

Later-stage companies continue to attract investments in Southern Africa as mature businesses offer lower investment risks in depressed economic conditions.
Total Size of Fund Managed

The majority of funds in the Southern African market remain larger than USD 200 million, although a significant decrease in the proportion of funds this size is evident. East African fund sizes show a considerable increase as PE firms target larger transactions. West African fund sizes remain fairly stable.

Our investment focus per transaction is:

Investment focus

The main investment size in East Africa is expected to be between USD 6 and USD 10 million as PE funds move towards targeting SMEs. In East Africa SMEs typically require funding of USD 6 – USD 10 million to scale up operations. In West Africa, the increase in focus on transaction sizes below USD 6 million appears consistent with the increased focus on SMEs, early stage companies and distressed assets. At the same time, there is an increase in the focus on transactions above USD 10 million in what would appear to be an attempt to capture the few performing large-size assets. Southern Africa’s target investment size per transaction remains fairly consistent from 2015 to 2016, aside from a shift in the largest proportion of deal sizes from between USD 10 and USD 20 million to between USD 6 and USD 10 million. South Africa’s depreciating currency, which makes assets cheaper in US dollar terms, is largely expected to account for the shift in investment sizes.
Over the next 12 months, we expect the average size of transactions in our region to:

We expect stagnant equity markets which essentially means that valuations will not change. Since our ticket size will also remain unchanged we don’t really expect our average transaction size to change.

We expect to fully invest fund I and start making fund II investments which are expected to be relatively larger than fund I investments.

Number of deals might decrease, but we do not see it impacting average size.

Transaction sizes
Transaction sizes in East Africa are expected to increase in 2016 due to the combined effect of increased competition, more investment opportunities and the targeting of larger transaction sizes. Respondents in West Africa are expecting the global average transaction size to remain the same as PE firms concurrently focus on very small and very large assets. Southern African deal sizes are largely expected to remain the same.
The Namibian Government Institutions Pension Fund has earmarked USD 200 million for an unlisted investment portfolio which will invest in local private equity projects.
Over the next 12 months, investors expect the fundraising environment for private equity to:

Fundraising environment

Investors in East Africa expect the fundraising environment to improve due to new funds being raised and increased investment opportunities. Investors in West and Southern Africa largely expect the fundraising environment to remain the same.

East African funds are now able to raise investments from pension funds, a source of funding which was previously unavailable to them.

The Namibian Government Institutions Pension Fund has earmarked USD 200 million for an unlisted investment portfolio which will invest in local private equity projects. As a result of the big changes in regulation requiring all pension funds and insurance companies to invest in unlisted local assets, a number of Special Purpose Vehicles (SPVs) have been set up as PE funds with related fund management companies.

There are a lot of funds not finding attractive investment opportunities elsewhere so are willing to put an allocation in Africa seeking diversification and growth.
If you intended to raise funds within the next 12 months, which source of third party funding would you raise capital from?

Sources of funding

The most popular source of funding across all three regions is government and development finance institutions (DFIs) followed by pension funds and endowments. The shift towards government/DFIs is a result of global economic pressure leading to a devaluation in African currencies and depressed consumer expenditure. A shift towards DFI funding in East Africa is a result of the contraction in the European market causing European DFIs to shift funding to Africa. The fact that the majority of East African respondents have previously raised funds from DFIs may account for their preference for sourcing funding from DFIs.

DFIs still have relatively high appetite & understanding of PE although appetite for early stage & SME is declining. Emerging interest from pension funds but still long learning curve before they are comfortable with PE.
If you intended to raise funds within the next 12 months, which geographical source would you raise capital from?

Capital raising: Geographical source

Europe remains the favoured source of funding for East and West Africa, in stark contrast to Southern Africa, where managers prefer to source funding from South Africa. In East Africa, most of the local pension funds have only recently started to invest in PE and it will take time to gain confidence in this asset class. All three regions show an uptick in Middle East as a geographical region from which to source funding.
Over the next 12 months I expect access to debt finance for transactions to:

Debt Finance

Across all three regions, global economic pressure in the form of increased interest rates, foreign exchange fluctuations, fiscal deficits and weak economic growth outlooks resulted in more expensive debt funding. At the same time, debt providers are exercising more caution. Accordingly, in the 2016 survey the majority of respondents across all three regions said they expect access to debt capital markets to remain the same or decrease. However, East African respondents indicated that they intended using limited debt funding for transactions over the next 12 months. This could be as a result of the high interest rates regime in the region. West African respondents on the other hand indicate the availability of debt funding in the market is falling.
During the next 12 months, we expect the exit environment in the region to:

Exit environment

This year, the sentiment in all three regions regarding the exit environment in the next 12 months worsens with far more respondents expecting a decline. This is influenced by foreign exchange risk and the majority of East and West African respondents saying that they are in an investment phase. Furthermore, the challenging debt funding environment is bound to put exit multiples under pressure. In East Africa, the concluded and upcoming elections are expected to impact deal values which may result in PE funds delaying exits as the timing is not right. In West Africa, the weak macroeconomic environment will not be very supportive of exits. In Southern Africa, the expected increase in Namibian private equity should result in the majority of PE funds focusing on new investments, hence the exit environment is expected to remain largely stable over the next 12 months.

Most funds are still in the Investment period. Mature investments having reached maturity: exceeded target exit dates.
During the next 12 months, we expect the volume of exits to:

Exit volumes
The majority of respondents expect the volume of exits to increase or remain the same despite significant pressure in the debt funding environment. We expect that this will result in PE funds being more susceptible to accepting lower multiples for maturing assets within the next 12 months as GPs intend to distribute returns to investors.
During the next 12 months, we expect the following exit routes to be most dominant in our region:

- **IPO**
- **Sale to strategic investor**
- **Secondary sales to private equity**
- **Partial exit via refinancing**
- **I do not expect any exits during this period**

**Exit routes**

The most dominant exit routes across Africa remain sales to strategic investors followed by secondary sales to PE funds. Some level of partial exit via refinancing is also expected in East and Southern Africa. In the East African region, IPOs remain the least attractive exit route for PE funds as it is considered too difficult. However, trade sales have been very successful with PE funds earning good returns on exit. Small PE funds see exits via sales to large funds, especially those that are looking to build scalable businesses for sale to strategic investors.
We expect the average lifecycle from initial investment to exit for investments made in the current year to be:

Average lifecycle
The majority of respondents across all three regions expect the average lifecycle, from initial investment to exit, for investments made in the current year to be more than five years. In the case of East and Southern Africa this indicates the level of investment opportunities expected to be available and the risk appetite for longer-term funding. In the case of West Africa, we believe PE funds have adopted increased investment horizons as a way of adapting to current economic conditions. In East Africa, PE funds expect to invest in SMEs which will require a greater deal of support both from a strategic and operational perspective. Consolidating gains from these investments will take time, hence the expected longer time horizon to exit.
Challenges Ahead

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

2016 Survey Results

- Distinction between managers and owners: 74% (East Africa), 61% (West Africa), 61% (Southern Africa)
- Corporate governance in itself: 38% (East Africa), 37% (West Africa), 37% (Southern Africa)
- Transparency: 68% (East Africa), 61% (West Africa), 61% (Southern Africa)
- Trust and shared vision: 63% (East Africa), 51% (West Africa), 51% (Southern Africa)
- Need for education: 46% (East Africa), 50% (West Africa), 51% (Southern Africa)
- Minority rights (lack of): 11% (East Africa), 50% (West Africa), 51% (Southern Africa)
- Lack of promotion/new concept: 26% (East Africa), 17% (West Africa), 17% (Southern Africa)
- Other: 0% (East Africa), 0% (West Africa), 2% (Southern Africa)

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2015 Survey Results

Biggest challenges related to improving corporate governance

Historically the distinction between managers & owners and corporate governance in itself were the biggest challenges to improving corporate governance for all three regions. This year transparency and trust & shared vision are identified as posing a challenge for improving corporate governance. Furthermore the need for education seems to pose a significantly greater challenge this year for improving corporate governance in West and Southern but not in East Africa.
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List of Abbreviations

bn: Billion
BEE: Black Economic Empowerment
CBT: Consumer, Business and Transportation
DFI: Development Finance Institution
EAC: East African Community (regional bloc)
EAVCA: East African Venture Capital Association
GDP: Gross Domestic Product
GP: General Partner
IMF: International Monetary Fund
IPO: Initial Public Offering
LP: Limited Partner
m: Million
M&A: Mergers and Acquisitions
MSME: Micro, Small and Medium Enterprises
PE: Private Equity
PECS: Private Equity Confidence Survey
TMT: Technology, Media & Telecommunications
SME: Small and Medium Enterprises
SSA: Sub-Saharan Africa
UN: United Nations
USD: United States Dollar