The investment potential of sub-Saharan Africa
Macroeconomic overview
M&A activity in Africa
Common M&A challenges in Africa
Our African reach and experience
Macroeconomic overview
Sub-Saharan Africa is anticipated to lead global economic growth over the next five years as measured by projected GDP growth rates.

<table>
<thead>
<tr>
<th>Region</th>
<th>Historical GDP%</th>
<th>Forecast GDP%</th>
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</thead>
<tbody>
<tr>
<td>North America</td>
<td>2.1% (2011–2013)</td>
<td>2.6% (2014–2018)</td>
</tr>
<tr>
<td>Latin America</td>
<td>3.3% (2011–2013)</td>
<td>2.9% (2014–2018)</td>
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<tr>
<td>Western Europe</td>
<td>0.8% (2011–2013)</td>
<td>1.6% (2014–2018)</td>
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<tr>
<td>Transition economies</td>
<td>2.4% (2011–2013)</td>
<td>2.6% (2014–2018)</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>3.3% (2011–2013)</td>
<td>4.0% (2014–2018)</td>
</tr>
<tr>
<td>Asia &amp; Australasia (incl Japan)</td>
<td>3.8% (2011–2013)</td>
<td>3.9% (2014–2018)</td>
</tr>
</tbody>
</table>

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.

**East Africa**

- **Population (m)**: | 2010 | 2013 | 2015 | 2013 – 2015 forecast |
- **GDP (US$bn)**: | 2013 | 2015 | 2013 – 2015 CAGR |
- **GDP per head (US$$)| 2013 | 2015 | 2013 – 2015 CAGR |

* 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**

- **Population (m)**: | 2010 | 2013 | 2015 | 2013 – 2015 forecast |
- **GDP (US$bn)**: | 2013 | 2015 | 2013 – 2015 CAGR |
- **GDP per head (US$$)| 2013 | 2015 | 2013 – 2015 CAGR |

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

**Southern Africa**

- **Population (m)**: | 2010 | 2013 | 2015 | 2013 – 2015 forecast |
- **GDP (US$bn)**: | 2013 | 2015 | 2013 – 2015 CAGR |
- **GDP per head (US$$)| 2013 | 2015 | 2013 – 2015 CAGR |

* 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

Source: EIU

www

Total Internet Users (million)

Total Cellular Users (million)
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.

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

**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.

**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.

**Improved macroeconomic policies and well-regulated markets**
Countries implementing better macroeconomic policies and well-regulated markets would increase investors’ interest in the region.
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)**

- 2009: Total deals 700, Disclosed: 500, Undisclosed: 200
- 2010: Total deals 750, Disclosed: 550, Undisclosed: 200
- 2011: Total deals 600, Disclosed: 450, Undisclosed: 150
- 2012: Total deals 650, Disclosed: 500, Undisclosed: 150
- 2013: Total deals 700, Disclosed: 600, Undisclosed: 100

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

- 2009: Deal Value: $15,000, Average Deal Size: $30,000
- 2010: Deal Value: $20,000, Average Deal Size: $40,000
- 2011: Deal Value: $25,000, Average Deal Size: $50,000
- 2012: Deal Value: $30,000, Average Deal Size: $60,000
- 2013: Deal Value: $35,000, Average Deal Size: $70,000

**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

Source: Capital IQ
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)**

- South Africa: 41.1%
- Other: 38.2%
- Tanzania: 1.0%
- Mozambique: 2.2%
- Nigeria: 9.4%
- Angola: 3.9%
- Cameroon: 0.7%
- Ethiopia: 0.5%
- Ghana: 1.0%
- Kenya: 2.0%

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

- Manufacturing: 35%
- Consumer Business: 19%
- Financial services: 23%
- Health care: 2%
- Energy and Resources: 9%
- TMT: 12%

Source: Capital IQ
Africa has seen significant M&A activity from large international investors implementing their global growth strategies.

**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.

**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.

**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).

**Barclays Bank and Absa merger**
- During 2005, Barclays paid approximately USD5.5bn 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.

**Marriott 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, Marriott 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.

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

**2007**

**2011**

**2012**

**2013**

**2014**

**2010**
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
Deloitte footprint in Africa

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

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<td>2</td>
<td>The Bidvest Group Limited</td>
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<td>Nampak Limited</td>
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<td>Vodaphone Plc</td>
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<td>Mondi Limited</td>
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<td>59</td>
<td>Econet Wireless Zimbabwe Limited</td>
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