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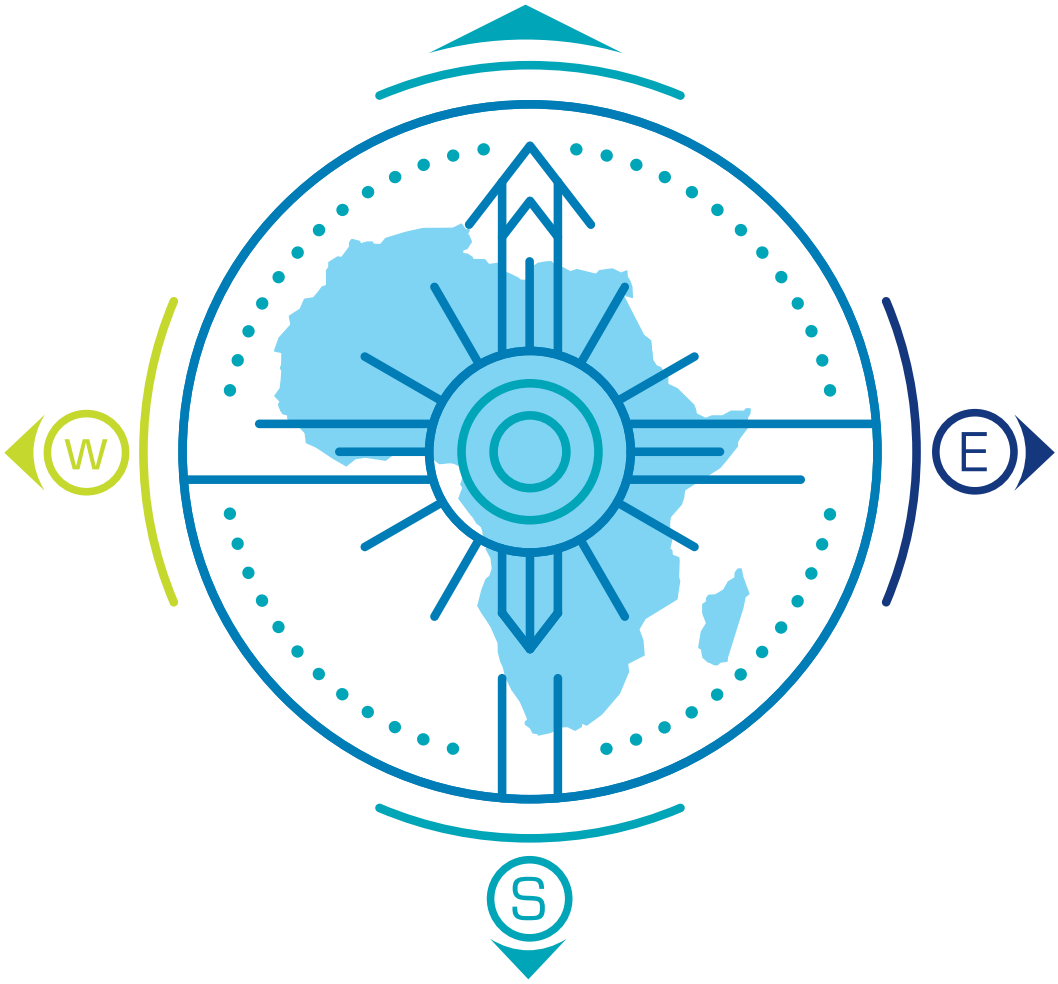
EAVCA East Africa Venture Capital Association

SAVCA SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

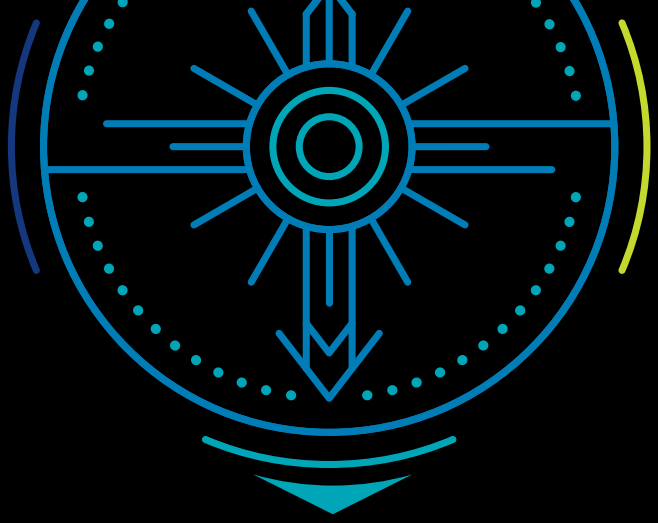


2017 Deloitte Africa Private Equity Confidence Survey

Translating potential into investment growth

November 2017

Africa PECS Highlights



Economic climate

Both IMF economic growth projections as well as survey respondents' expectations anticipate a more positive outlook for sub-Saharan Africa (SSA) over the 2017-18 period.

Arguably, 2016 marked the bottoming out of Africa's growth downturn.

PE market outlook

The current private equity (PE) landscape across SSA's regions exhibits a high demand for quality assets and a need to maximise returns from portfolio companies.

Looking ahead, PE activity is expected to increase over the next 12 months.

Deal activity

Most respondents across all three regions are investment ready and expect to invest more over the next 12 months.

Competition for new investments is expected to increase, particularly in East and West Africa.

Anticipated increased competition results in respondents expecting entry multiples to increase, most strongly in East and West Africa.

Consumer-focused sectors, which include food and beverages, agriculture, healthcare and financial services, rank among top focus sectors for respondents.

Fundraising

West Africa is the most optimistic region for an improved fundraising environment.

Fundraising sources are expected to vary between regions from mainly governments/DFIs in West Africa, to mostly pensions/endowments in East Africa, and private individuals and governments/DFIs in Southern Africa.

Increased debt finance access for transactions is expected to be most evident in West Africa.

Europe is expected to be a favoured geographical source from which to raise capital.

Exits

Given the general uptick in SSA's economic outlook, most respondents expect the volume of exits to increase or remain the same over the next 12 months, with the average lifecycle for investments expected to be more than five years.

West Africa's exit environment is expected to improve in the next 12 months, with East and Southern Africa expected to see limited changes in the exit environment.

The most anticipated exit routes are sales to strategic investors and secondary sales to PE funds.

Limited partners

Limited partners (LPs) are most interested in investing in mid-sized growth funds.

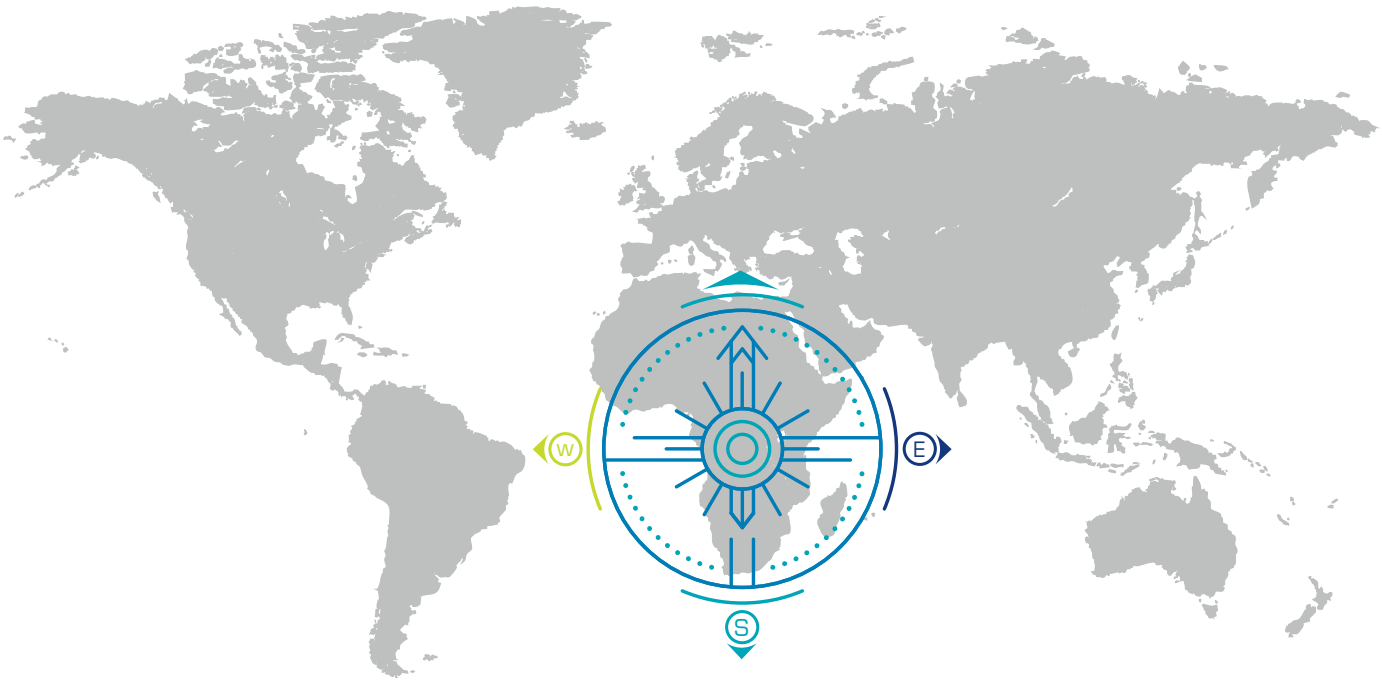
Challenges ahead

Across the regions, there are three key challenges to improving corporate governance – the distinction between managers and owners, corporate governance itself, and transparency.

Another potential challenge that may affect PE in SSA is the issue of the UK leaving the EU, although most respondents expect this to have a minimal impact.

The majority of respondents across all regions indicate that they expect lower foreign aid from the US following Donald Trump's 'America First' campaign.

Contents



Foreword

We are pleased to present you with the 2017 Deloitte Africa Private Equity Confidence Survey (PECS).

This forward-looking survey provides valuable insights into how fellow private equity (PE) practitioners currently view the African PE landscape, as well as their future expectations.

Despite the oil price slump from 2014 and the continued slow down in real GDP growth between 2015 and 2016 across the African continent, investor sentiment and confidence is returning and is largely positive. This was evidenced by the majority of respondents across each region expecting an increase in PE activity over the next 12 months.

While the current uncertain economic and political environments in some regions are still expected to provide challenges for private equity practitioners, there is significant deal appetite and anticipated growth in competition for quality deal assets.

The search for returns amidst an uncertain backdrop across the continent is expected to support the PE sector. As an asset class, PE's attractiveness stems from its ability to achieve returns in a market where volatility is perhaps too high to continue with traditional investment strategies.

Deloitte would like to thank all those who have completed the survey and thereby contributed to us being able to deliver the message of investor confidence over the next 12 months.

Sean McPhee
Partner
Corporate Finance

Clinton Wolder
Associate Director
Corporate Finance

Gladys Makumi
Partner
Corporate Finance

Temitope Odukoya
Partner
Corporate Finance

A word from SAVCA

Despite the Southern African economy facing multiple challenges, the private equity industry continues to show agility and adaptability in the face of increasing market dynamism.

SAVCA, the industry body and public policy advocate for private equity and venture capital in Southern Africa, aims to promote private equity. The valuable insights provided by the Deloitte Africa Private Equity Confidence Survey achieve this by deepening the knowledge of and prospects for the asset class in sub-Saharan Africa (SSA).

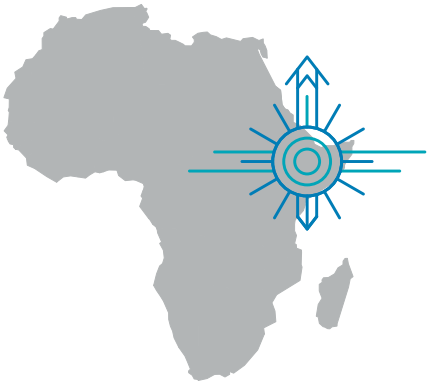
Deal-making in the current volatile economic and political climate might prove challenging. However, due to strong fundraising over the past three years, SAVCA expects good deal flow trends to continue into 2017 and 2018. As indicated by this survey, the Southern African region expects to devote a sizeable portion on sourcing and managing new investments – a finding that is consistent with the SAVCA Private Equity Industry Survey 2017.

Although Real Estate, Information Technology and Energy dominated investments made by private equity managers in the South African region in 2016, manufacturing also featured prominently and it is assumed that this will continue as reported in this survey.

Despite the South African economy being plagued by many challenges and 57% of respondents indicating the economic climate in South Africa is deteriorating, South Africa remains the top performing country across the continent for exits and value creation. Collectively, 79% of the respondents expect overall private equity activity in Southern Africa to either increase or remain the same.

The private equity industry in Southern Africa has a substantial track record, depth of skills and access to capital. Given this, the industry is well positioned to continue driving accelerated growth.

Tanya van Lill
Chief Executive Officer
Southern African Venture Capital and Private Equity Association (SAVCA)



A word from EAVCA

Private equity investment into East Africa is coming of age.

The East Africa Venture Capital Association (EAVCA) is pleased to partner with Deloitte in presenting the findings of the 2017 Deloitte Africa PECS. The 2017 PECS report reinforces our outlook of PE investment into East Africa coming of age. In spite of elections held in Kenya and Rwanda, as well as the expectation of tighter regulatory controls in Tanzania, 62% of respondents expect PE activity to increase in 2017/18 and no respondents expect a decline in PE activity in the region.

Stable macro fundamentals may be attributed to this high level of confidence in the region. East Africa's GDP is expected to grow by over 6% and to remain the strongest growth recorded in SSA in 2017. In addition, stability of the region's currencies and being a net oil-importing region has shielded East Africa from the economic strains that have affected other SSA markets, to sustain the momentum of investment.

Fundraising has remained a key priority for PE activity in East Africa. The 2017 PECS shows that East Africa has led the SSA region in fundraising over the past 12 months. As the sector gains momentum, most of the local PE funds formed over the last decade are investing out their vintage funds, to drive fundraising activity. Increased participation of local pension funds in PE investment following the easing of regulatory processes has helped boost fundraising in the region.

Another indication of the PE sector's growth in East Africa is the increased competition for deals in the region. The 2017 PECS notes that 71% of respondents surveyed expect entry multiples into transactions to grow, compared to 24% in 2016. The increasing competition of funds has led investors to look beyond Kenya as a main hub for capital deployment, and focus on the other regional countries. Rwanda, for instance, recorded the highest jump in investor interest in 2017. Even with the stringent enforcement of controls in Tanzania, the country recorded a jump in investor interest as a capital destination, from 52% in 2016 to 67% this year.

The 2017 PECS notes 53% of respondents said they would prioritise investments in SME businesses, seen as the backbone of the economies of East Africa, through sectors such as agribusiness, financial services, retail and manufacturing. Beyond growth capital deployment, investing in SMEs allows fund managers to instil corporate governance, and provide business strategy guidance, to create influential companies.

Investors are increasingly considering early stage investments in the region, especially for nascent sectors such as technology and renewable energy. Early stage investing is a greater priority of fund managers in 2017, compared to 2016.

Finally, another indication of the evolving PE sector in the East Africa is the increased expectation for exits. 14% of the respondents expect to exit more from their current portfolios, where no respondents indicated exits as a priority area in 2016. Similarly, respondents who expect to invest and exit equally have grown, which when coupled with the actual exits activity expected, is a demonstration of the growing maturity of funds in the region.

PE has come a long way over the last decade and significant strides have been made to position the sector as the driving force for SSA's private sector. EAVCA acknowledges the role partners such as Deloitte have played in providing insights and awareness of the sector to increase confidence in the asset class for investors, as well as business owners. We commend Deloitte for their consistency in depth and analyses of their findings from the PECS.

We hope you will find this report as insightful as we did.

Eva Warigia
Executive Director
EAVCA

Esther Ndeti
Executive Director
EAVCA

Economic climate

SSA growth and macro outlook

SSA's 2017-18 outlook is positive, with 2016 expected to have been the bottoming out of Africa's adverse growth cycle. The anticipated recovery is expected to be driven by more stable oil prices and projected improvements in most commodity prices.

The impression that the African continent was advancing in unison was shattered in the wake of the commodity super-cycle ending, particularly following the oil price slump from mid-2014. The sharp downturn in the global oil price had negative implications for many African economies.

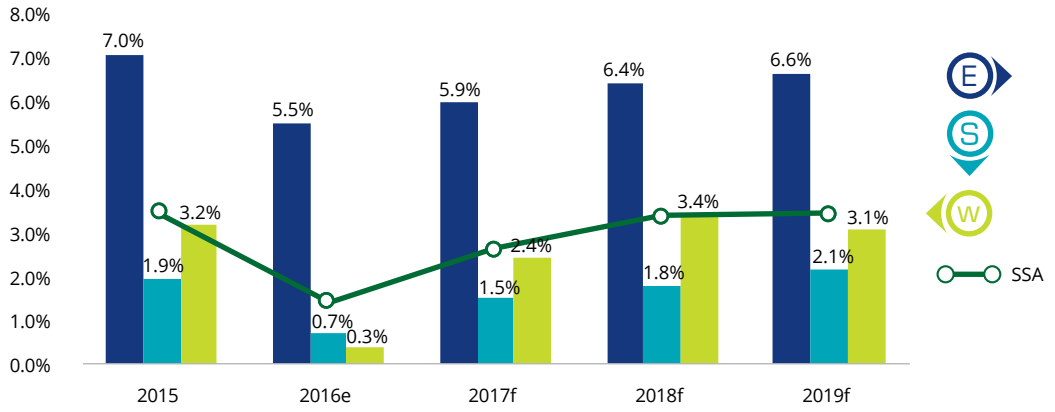
Among the big four economies in the SSA region, Nigeria suffered a sharp recession in 2016, while growth in South Africa and Angola came to a near standstill. Only Kenya bucked the trend last year, growing at almost 5.9%.[1]

Along with Kenya, a number of economies (particularly in East Africa) that actively promote export and economic diversification have been leading the way. As a result, East Africa as a region is projected to show some of the strongest growth in the coming years.

The economies that struggled after the end of the commodity super-cycle also have a more positive outlook. Stabilisation of the global oil price and the uptick in most commodity prices is setting the scene for an expected recovery in West Africa, as well as in Southern Africa.

The SSA region as a whole is therefore expected to recover in 2017, with anticipated average growth of 2.6% in 2017 after growing by only 1.4% in 2016.[2] Real GDP growth is projected to increase to 3.4% in both 2018 and 2019, respectively.[3] However, the muted nature of the projected strengthening of commodity prices is set to translate into slower real GDP growth than the levels seen during the commodity super-cycle.

Figure 1. Real GDP growth, 2015-19f (%)



Source: IMF, 2017

East Africa growth and macro outlook

East Africa performed the best in the years directly following the slump in international commodity prices as the region is the least dependent on hard commodity exports. East African real GDP growth is forecast to remain buoyant over the medium term, averaging 6.3% p.a. over the 2017-19 period. Economies in the region such as Ethiopia, Kenya, Rwanda and Tanzania are the frontier growth stories of the continent.

East Africa's growth outlook is also underpinned by expected ongoing investments in infrastructure and sound economic policies. Investment in public infrastructure is a key priority for the region's governments to drive economic growth and development. Growth momentum will largely depend on the region's ability to improve its economic diversification and political stability to avoid a loss of investor confidence. This is relevant particularly during election cycles in Kenya, Uganda and Tanzania.

Over the last year, East African nations experienced a severe drought. Agriculture, which accounts for a large proportion of the region's GDP, is highly dependent on the weather, and adverse rainfall is directly reflected in both agricultural production and food prices. Hence, poor crop production greatly contributed to food price inflation across the region.

In the medium to long term, oil discoveries in Kenya and Uganda are likely to boost economic growth as well as diversification by reducing the over-reliance on rain-fed agriculture. Uganda is at the forefront, with commercial oil production expected to commence by 2020.

According to IMF figures, Ethiopia replaced Kenya as East Africa's largest economy in 2016. Public-led spending on infrastructure and domestic demand has driven the country's strong economic growth over the last decade (averaging 10.2% p.a. over the 2007-16 period). Recently, the country has become a destination of choice for investors, given government's deliberate efforts in encouraging foreign investment. In addition, the country is positioning itself as a key hub for manufacturing on the continent and is going to be home to Africa's largest hydroelectric dam.

Southern Africa growth and macro outlook

Southern Africa felt the downturn in commodity prices. The region grew by 1.3% p.a. over the 2015-16 period; and is expected to expand by 1.8% p.a. over the 2017-19 period.

On top of low commodity prices, Southern Africa suffered from a drought that turned out to be the worst on record. The region was also dragged down by its regional economic power, South Africa. The country is both a key export market for its neighbours' merchandise commodities and an important source of imports for them. The vast majority of businesses that conduct operations across the region are based in South Africa.

South Africa's economy remains under pressure, having emerged from a technical recession in Q2 2017, and plagued by political uncertainty and sovereign debt rating downgrades. The country is forecast to grow at lacklustre rates over the medium term, which will continue to place downward pressure on growth rates across the region.[4]

Nevertheless, there are pockets of strong performance in Southern Africa. Mozambique is forecast to grow by an average of 5.3% p.a. over the 2017-19 period, despite ongoing repercussions from external debt scandals. Malawi and Botswana are projected to record average real GDP growth rates of 5% and 4.6%, respectively, over the same period. Mauritius (rated by the World Bank as the best country in which to do business in SSA[5]) is forecast to grow by an average of 4% p.a. over 2017-19.[6]

West Africa growth and macro outlook

West Africa is a region heavily dependent on hard commodity exports. Therefore, the region saw a sharp economic downturn over the last few years. Nigeria in particular faced notable macroeconomic difficulties, culminating in a real GDP contraction of 1.6% in 2016. A lack of foreign exchange availability placed considerable strain on the economy, which also led to less PE investments.

Part of the investment community looked further to Côte d'Ivoire, yet the country's relatively small economy and limited investment opportunities available presented some challenges. Nevertheless, there is now some stability in the Nigerian foreign exchange market following liberalisation efforts by the central bank, and investments are gradually returning.

The regional powerhouse is still expected to face pressure over the next few years, with the IMF projecting real GDP growth of 1.5% p.a. over 2017-19.[7]

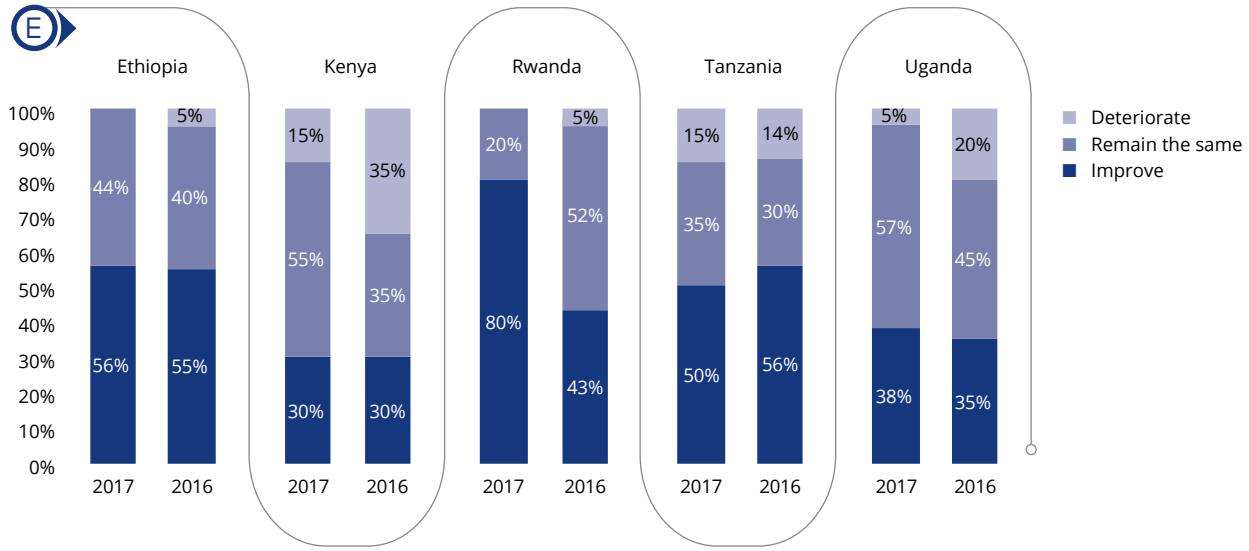
Several countries in West Africa have shown resilience in the face of the commodity price slump. Côte d'Ivoire and Senegal are expected to be among the strongest growth performers on the continent over the 2017-19 period. The IMF expects Côte d'Ivoire, Senegal, and Ghana to grow at an average of 7.3%, 7%, and 6.9%, respectively, over 2017-19.

Respondents' economic expectations[8]

The expectations of survey respondents are relatively in line with IMF projections for key economies in each region, with respondents echoing similar economic outlooks in the short term.

East Africa

Figure 2a. Over the next 12 months, we expect the overall economic climate to



Most respondents expect the overall economic climate in East Africa to either remain the same or improve. Given the strong growth rates seen in preceding years, expectations for conditions to remain the same translates into a general optimistic outlook for the East Africa economic climate over the next 12 months.

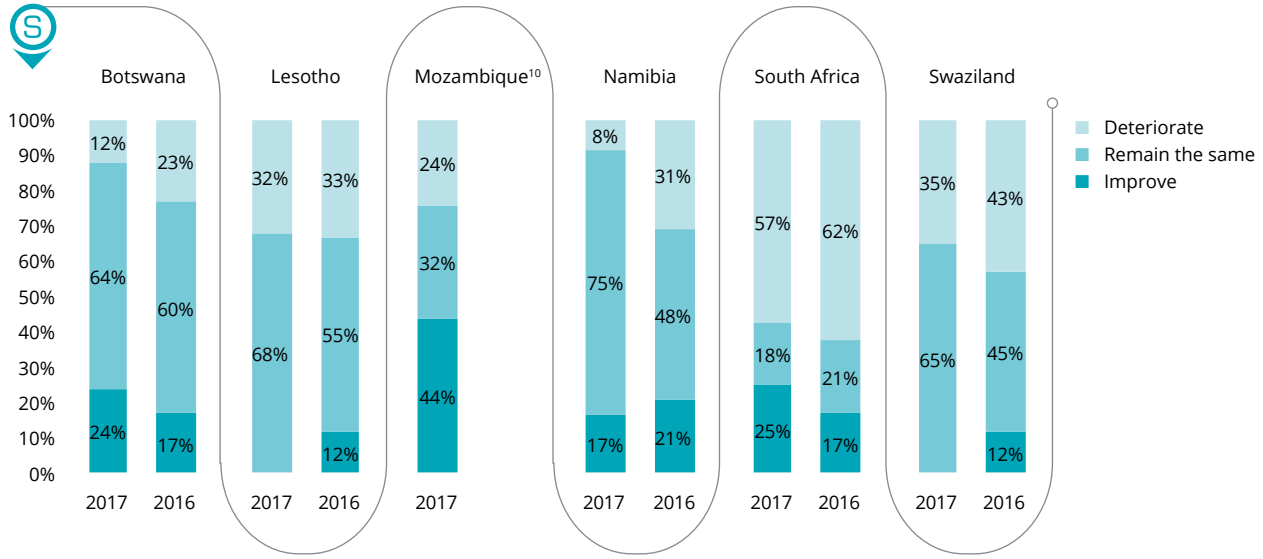
While marginally higher expectations for economic improvements are recorded in Ethiopia and Uganda, expectations of improved economic conditions in Kenya remain the same in 2017, despite slower economic growth reported in the first half of 2017. Expectations for Rwanda improved significantly, with respondents bullish on Rwanda's growth outlook. The positive outlook in Rwanda is likely underpinned by expected growth in the services sector (hotels and restaurants, real estate, and administration and support services).

Some respondents expect economic conditions to deteriorate. The expected deterioration by some for Kenya could be directly linked to uncertainty surrounding the national elections. In addition, there has been reduced liquidity in the market following the implementation of the Banking (Amendment) Act 2016, which has capped the interest rates charged by lending institutions at 4% above the prevailing Central Bank Rate (CBR) set by the Central Bank of Kenya (CBK). The IMF has warned that the interest rate cap is "*likely to reduce access to credit, weighing on growth*".[9]

Despite some respondents' concerns for Tanzania, the country's outlook remains positive, with economic growth projections of 6.8% for 2017. However, the government's stance on prudent public financial management is putting pressure on the public sector.

Southern Africa

Figure 2b. Over the next 12 months, we expect the economic climate to



Expectations of a subdued economic climate are evident in the Southern African region. This is driven by the adverse expectations for South Africa's prospects over the next 12 months. However, respondents are more optimistic towards South Africa in the 2017 survey compared to the previous year. This is in line with the latest economic data that indicated the South African economy has emerged from its recession with positive real GDP growth in Q2 2017.[11]

Optimism surrounding the Namibian economy has reduced with more respondents expecting the country's economic climate to remain the same.

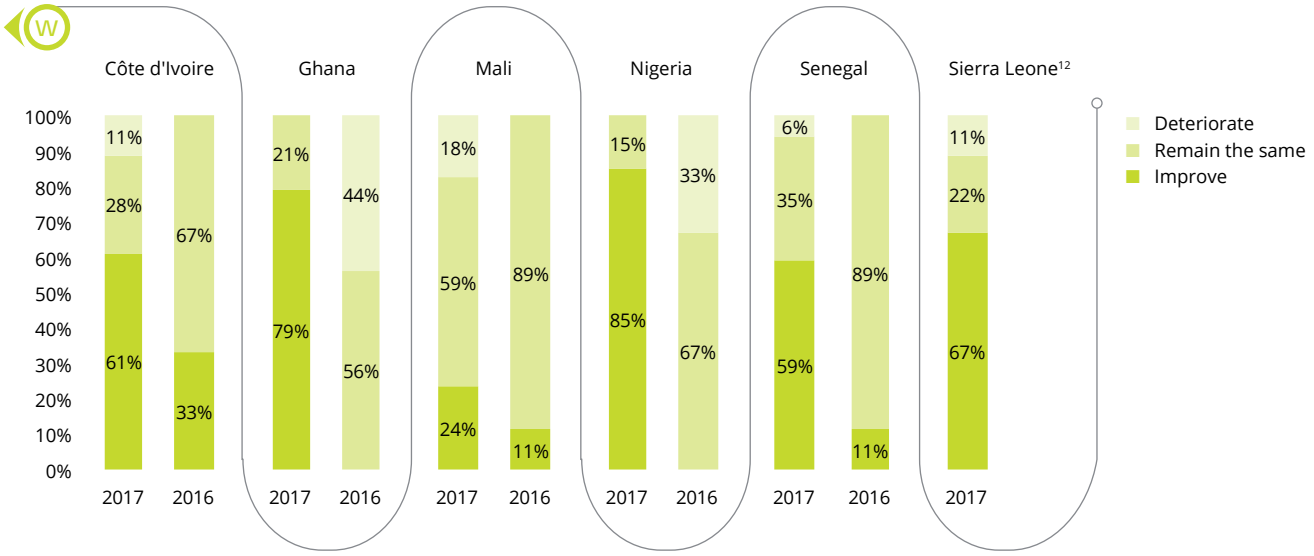
Other countries in the region showed a mixed bag of results. No respondents expect conditions to improve in Lesotho, nor in Swaziland where economic conditions are expected to remain the same over the next 12 months. While the majority of respondents in Botswana echo the sentiment of more of the same, more respondents also expect economic conditions to improve.

Respondents are optimistic about the economic climate in Mozambique for the next 12 months, with the majority expecting conditions to improve. This is in line with growth expectations for the country and the potential transformation of the economy from available natural resources.

However, several downside risks are evident in Mozambique, not least those that stem from ongoing repercussions from external debt scandals that emerged in 2016. While the Kroll audit was a good step in the right direction, the IMF and other international agencies will require further efforts to increase transparency and accountability before resuming budgetary aid.

West Africa

Figure 2c. Over the next 12 months, we expect the overall economic climate to



The economic climate in West Africa is largely expected to improve over the next 12 months. Respondents' views on Nigeria's prospects improved, with 85% expecting the economic climate to improve (compared to none in the 2016 survey). Similarly, 79% expect an improvement in Ghana's economic conditions, while there was no expected improvement in 2016.

The improvement in economic outlook is a consistent theme for the whole West Africa region. The consensus amongst most international agencies (like the IMF and World Bank) is that SSA's growth downturn bottomed out in 2016. The more optimistic outlook stems largely from more stabilised oil prices, which in turn has seen local currencies strengthen as foreign exchange reserves are built up.

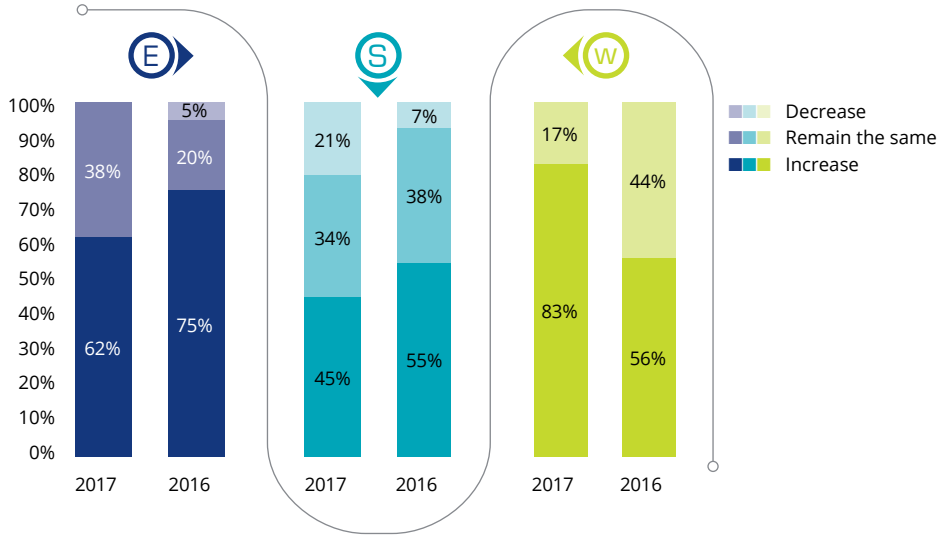
Nigeria emerged from a recession in Q2 2017, after posting its first annual contraction in 25 years in 2016.[13] Nigeria and Ghana have considerably improved growth prospects over the 2017-19 period compared to the real GDP growth rates recorded in 2016. Côte d'Ivoire and Senegal are also expected to continue on their respective strong growth paths.

PE market outlook

Overall PE activity

The majority of respondents expect PE activity to increase over the next 12 months. This is most prevalent in West Africa.

Figure 3. Over the next 12 months, we expect overall PE activity in the region to



East Africa

Given the region's steadfast growth expectations, almost two thirds of respondents expect overall PE activity in East Africa to increase over the next 12 months. Although there is substantial optimism in the region, 62% of respondents for East Africa expect economic activity to increase, lower than the 75% in the prior year. The decrease arose from the adverse consequences from the regional drought, liquidity pressures, and pending elections in Kenya. Kenya remains the gateway to East Africa for investors looking to enter the East African economies and as such, the country's economic outlook has a substantial impact on expected investment activity in the region.

Southern Africa

There is an increased expectation of reduced PE activity in Southern Africa. This is primarily driven by political and economic uncertainty in South Africa. While almost half of respondents still expect overall PE activity to increase, there are several 'high-risk' events scheduled for late 2017, including sovereign credit rating reviews and the ruling African National Congress (ANC) national elective conference.

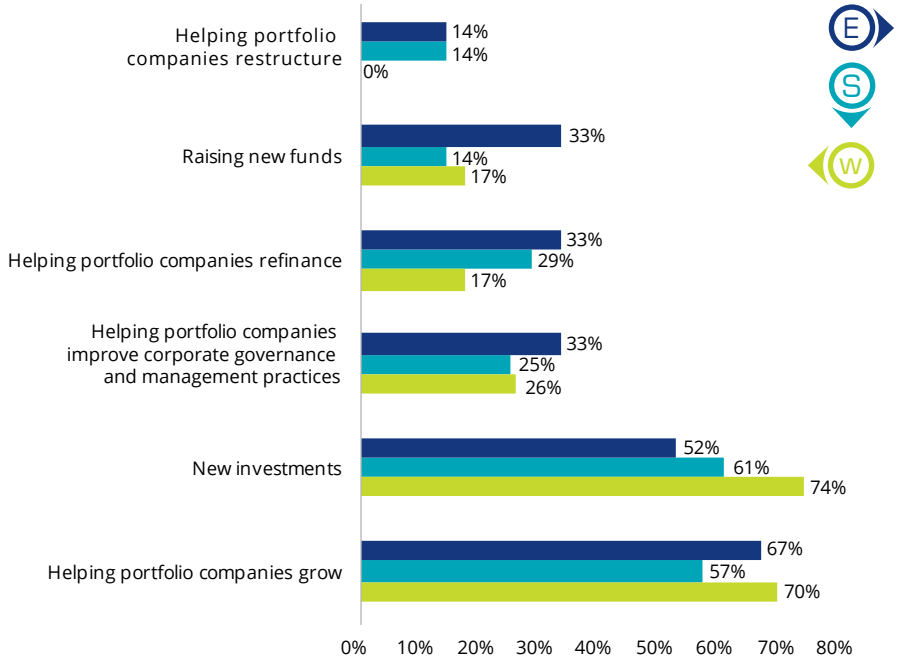
West Africa

Similar to East Africa, respondents also do not expect a decrease in overall PE activity in West Africa, due to anticipated improvements in commodity prices and the region's expected economic recovery. After falling into a recession in 2016, there are expectations that Nigeria has turned the corner, with the economy exiting the recession in Q2 2017.[14] The improved outlook for Nigeria bodes well for investments into the region as a whole, given its size and influence on the surrounding West African economies.

Focus areas

Respondents spent most of their time on finding new investments and helping portfolio companies grow. This is indicative of the current PE landscape, where there is a high demand for quality assets and a need to maximise returns from portfolio companies.

Figure 4. Over the past 12 months, we have spent the majority* of our time on



* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

East Africa

A number of international PE funds have established a presence in East Africa and have focused on searching for quality investment opportunities. Additionally, a number of East African focused funds have looked to grow their portfolio companies as they seek to add value before any exits.

Southern Africa

For Southern Africa, respondents have been focused on finding new opportunities, but also spent a large share of their time on helping portfolio companies grow and refinance, as well as assisting companies to improve their corporate governance and management practices.

West Africa

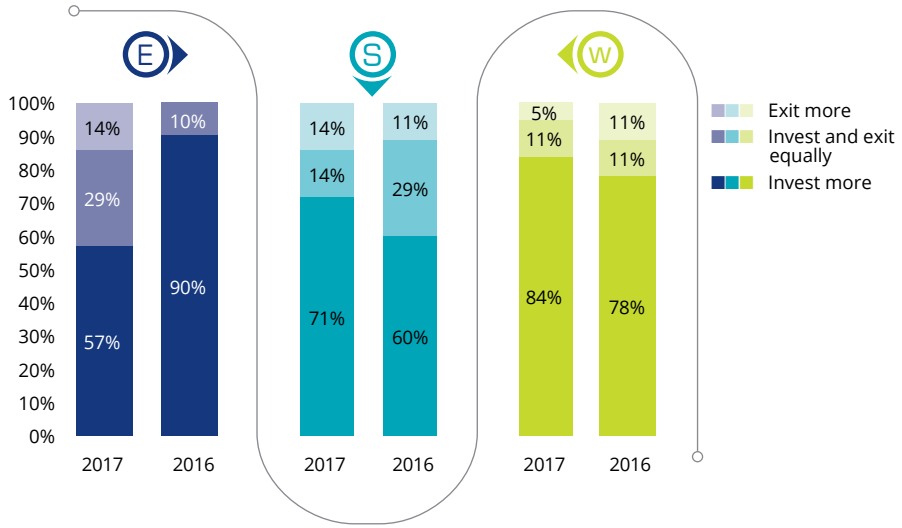
For West Africa, respondents also spent the majority of their time on new investment opportunities and helping portfolio companies to grow.

Deal activity

Investment readiness

Most respondents are investment ready and expect to invest more over the next 12 months.

Figure 5. Over the next 12 months, we expect to



East Africa

In contrast to the other two regions, investment readiness is expected to reduce somewhat over the next 12 months principally due to the election uncertainty in Kenya. Furthermore, 14% of respondents expect to exit more over the next 12 months. This is a result of local PE funds investing out their vintage funds.

Southern Africa

In Southern Africa, there is an increase in investor readiness. This sentiment is underpinned by the increase in funds under management, which increased to R171.8bn in FY16 from R158.5bn in FY15.[15]

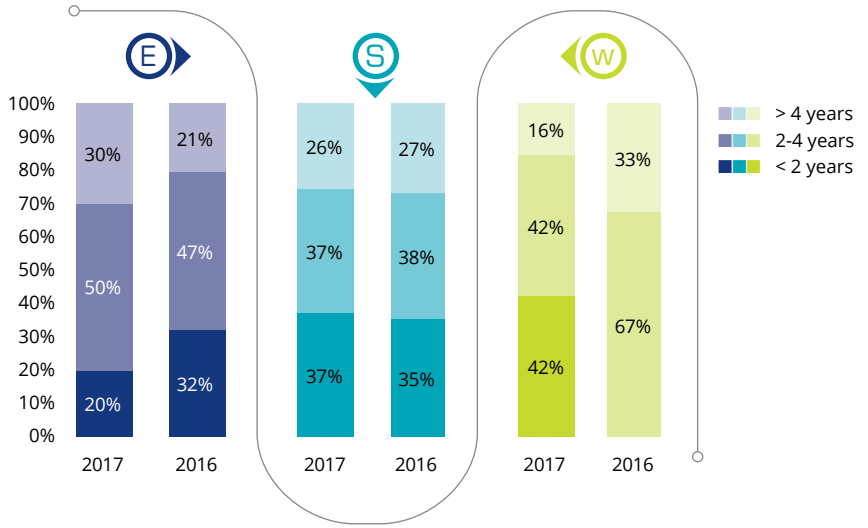
West Africa

In West Africa, the expected economic recovery in Nigeria and the stabilisation of the foreign exchange climate are key drivers of the increased investment readiness appetite of respondents.

Fund investment period

Across the three regions, respondents' current funds are expected to be invested in the next two to four years.

Figure 6. We expect the time it will take to invest our current fund to be



East Africa

In East Africa, most PE funds are expecting to invest their current funds in the next two to four years. This is consistent with the 2016 results where most respondents indicated that they were in the early stages of deploying newly raised funds.

Southern Africa

In Southern Africa, respondents expect to invest their current funds over a period of either between two to four years or less than two years.

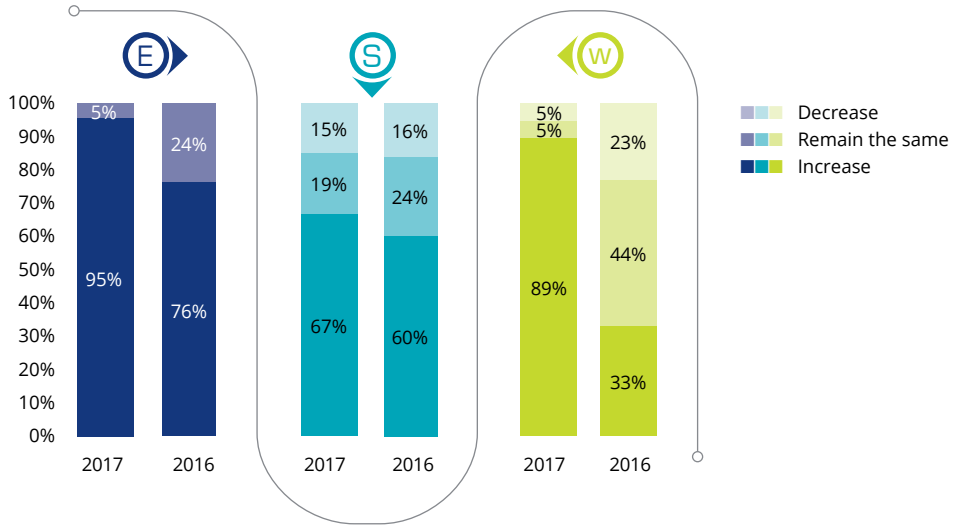
West Africa

In West Africa too, most respondents expect to invest their current funds either between two to four years or over less than two years. This was a change from the 2016 results, where no investments were expected in less than two years.

Competition for assets

The competition for new investments is expected to increase, particularly in East and West Africa, where competition is expected to be substantially higher than in the previous year.

Figure 7. We expect that competition for new investment in the region will



East Africa

In East Africa, the increased interest of international and development funds in the region is expected to create significant competition for investment assets.

Southern Africa

There are increased expectations for competition for new investment in Southern Africa. Key drivers of the increase are the improved growth outlook for the region, an increase in funds under management, and higher demand for quality assets.

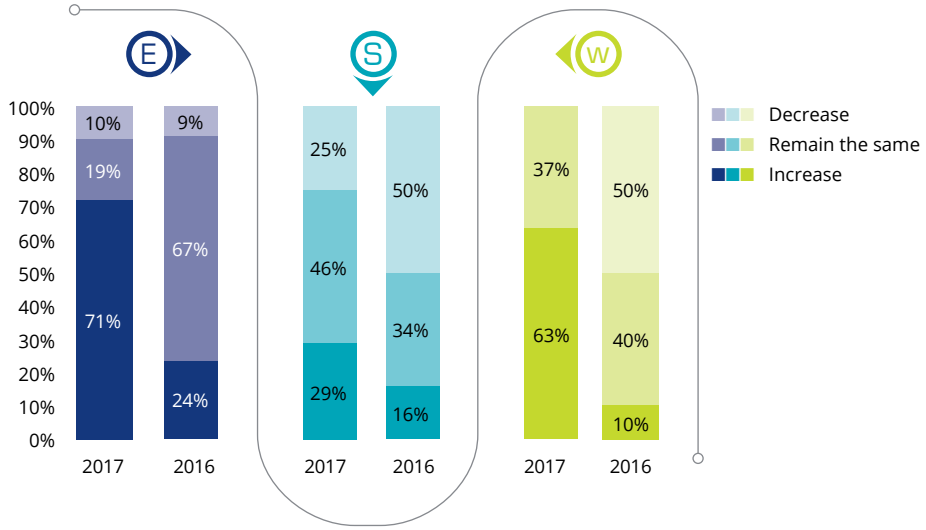
West Africa

In West Africa, anticipated higher oil production and improved foreign exchange liquidity are expected to result in increased investment opportunities and competition for assets.

Entry multiples

Expectations of entry multiples on transactions over the next 12 months have changed from 2016. Greater competition for new investments is expected to increase entry multiples, particularly in East and West Africa.

Figure 8. Over the next 12 months, we expect entry multiples on transactions in our region to



East Africa

For East Africa, almost three quarters of respondents expect entry multiples on transactions to increase over the next 12 months. As competition for deals in the region continues to increase, so will entry multiples be expected to increase, as valuable assets will be priced at a premium.

Southern Africa

The majority of respondents expect transaction multiples to increase or remain the same as in 2016. Growth in multiples is anticipated to arise particularly in the mid-market fund space.

West Africa

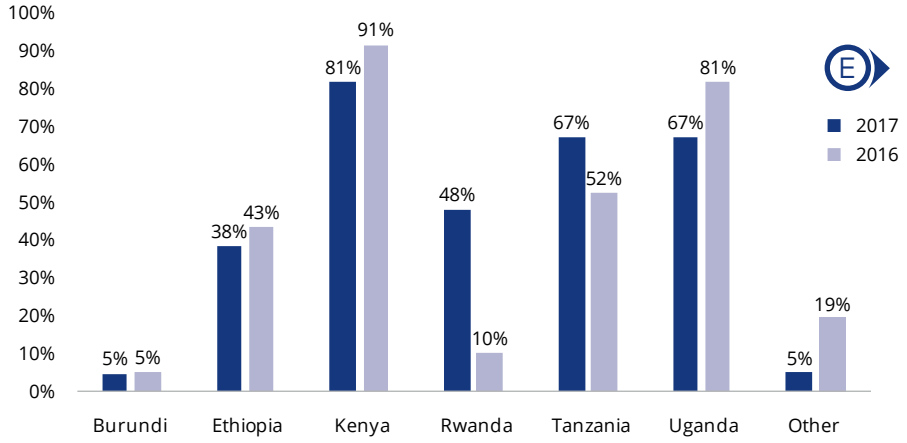
For West Africa, a notable share of respondents expect entry multiples on transactions to remain the same over the next 12 months. However, in line with increased competition, almost two thirds expect an increase in entry multiples.

Country focus

More attention has been on East and West Africa as investment destinations. The emergence of Tanzania and Rwanda as preferred investment destinations in East Africa, and the rise of Ghana and Côte d'Ivoire ahead of Nigeria in West Africa are notable movements.

East Africa

Figure 9a. In case the focus will be on new investments, we expect to invest in the following countries*



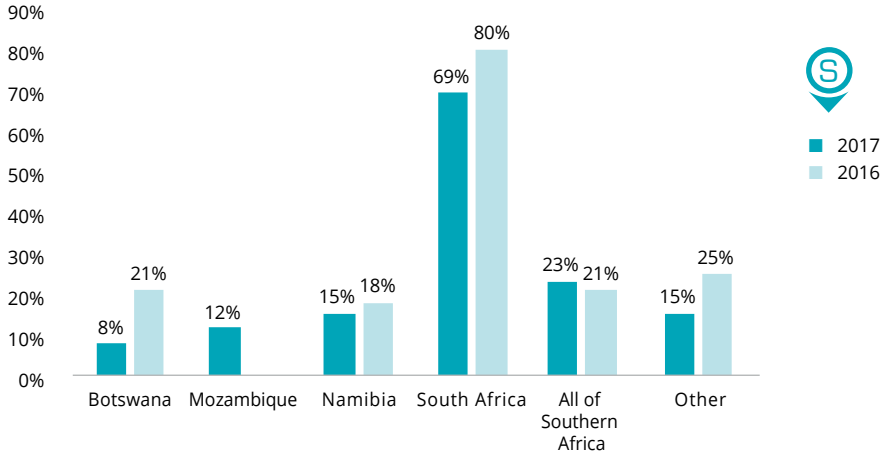
* Note: answers do not sum to 100%, given that respondents were allowed multiple answers. 'Other' refers to other countries in the East African region.

Kenya, Tanzania, and Uganda are popular investment areas in East Africa. Kenya's attractiveness as an investment destination is driven by increased investment opportunities from the private sector. The investor focus on Tanzania is due to the smooth and successful transition of the government, as well as the relative maturity of the market and level of opportunities available. A positive economic growth outlook for Uganda lends strength to the country's reputation as a popular investment destination.

Respondents also expect to focus more on new investments in Rwanda. This is attributable to the country's improving economic conditions, stable political environment, increase in infrastructural development and improving ease of doing business.

Southern Africa

Figure 9b. In case the focus will be on new investments, we expect to invest in the following countries*



* Note: answers do not sum to 100%, given that respondents were allowed multiple answers. 'Other' refers to other countries in the Southern African region.

Popular investment destinations in Southern Africa have not changed significantly. Due to its maturity as an investment destination, South Africa remains the primary investment area. However, while South Africa has the most sophisticated and integrated financial system, the country's macroeconomic difficulties, near zero growth environment, and political uncertainty have reduced the outlook for new investments in this area.

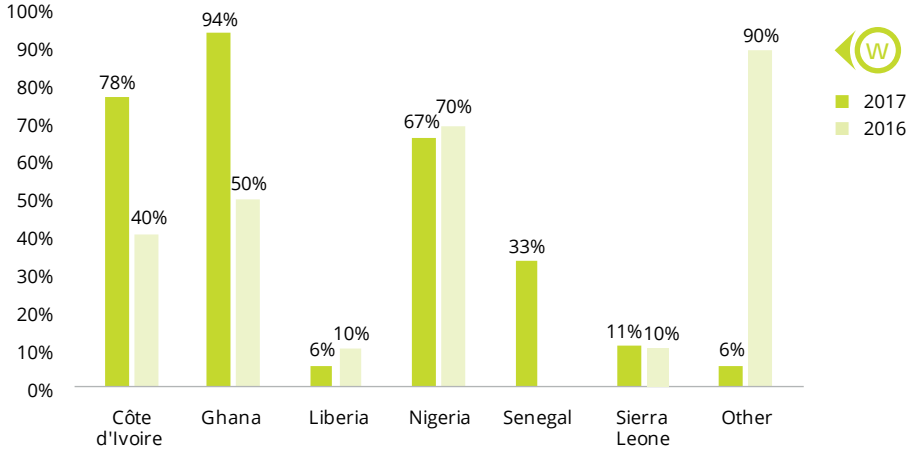
Namibia is also traditionally an attractive destination for new investments and remains an important market in the region.

Botswana has been adversely affected by a decrease in diamond prices over the last few years. The country remains dependent on global demand for the precious gem, with lower demand translating directly to slower growth and less opportunities in the country.

Despite ongoing repercussions from several external debt scandals, Mozambique still boasts a wide variety of investment opportunities.

West Africa

Figure 9c. In case the focus will be on new investments, we expect to invest in the following countries*



* Note: answers do not sum to 100%, given that respondents were allowed multiple answers. 'Other' refers to other countries in the West African region.

Nigeria, SSA's largest economy, is a key investment destination in the West Africa region. However, Ghana has overtaken Nigeria in the 2017 results to become the most popular investment destination in West Africa for new investments. This reflects Ghana's improving political environment and positive macroeconomic and fiscal outlook.

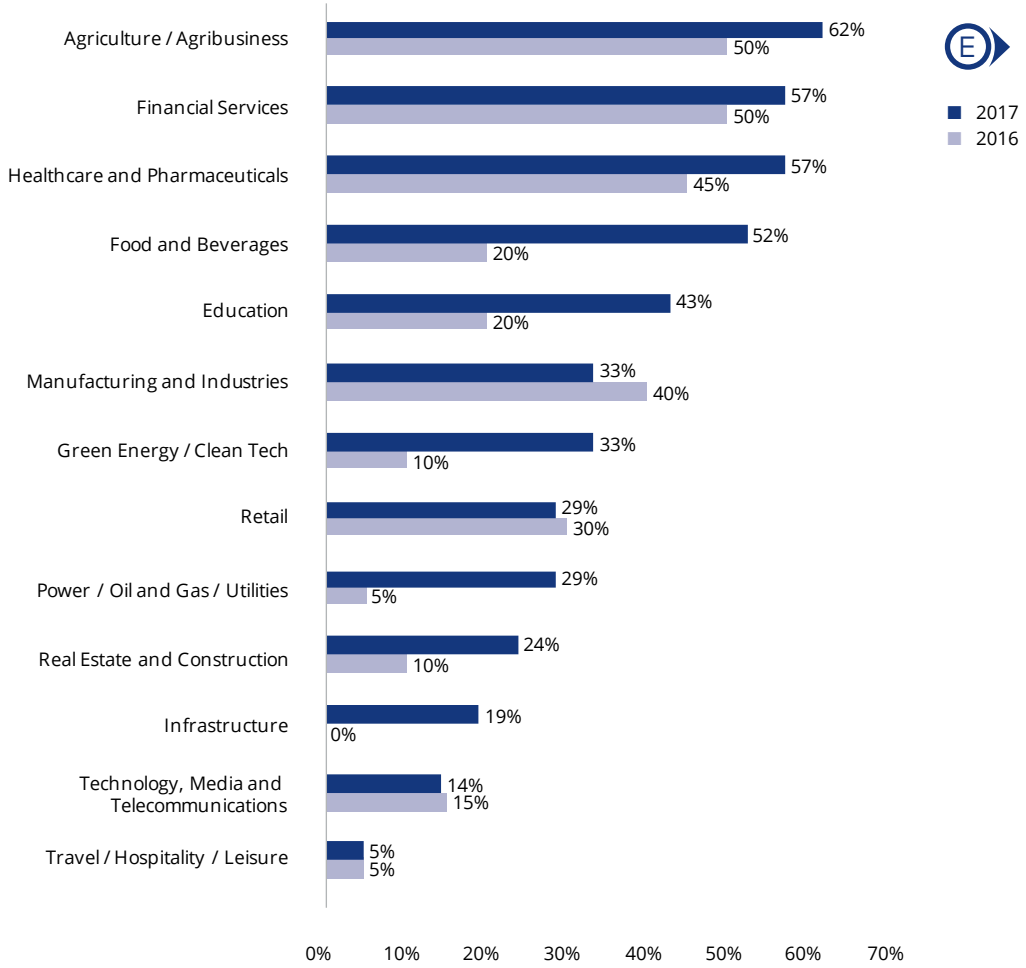
While Côte d'Ivoire's rapidly expanding economy has also lent itself to investor confidence, Liberia's difficult macroeconomic environment continues to weigh on investor sentiment. Senegal[16] is among West Africa's fastest-growing economies and is competitive as an investment destination in the region.

Sector focus

Consumer-focused sectors, which include food and beverages, healthcare and pharmaceuticals, agriculture and agribusiness, as well as financial services, rank among the top PE sector focus areas in each region.

East Africa

Figure 10a. In the next 12 months, we expect to focus on opportunities in the following sectors*



* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

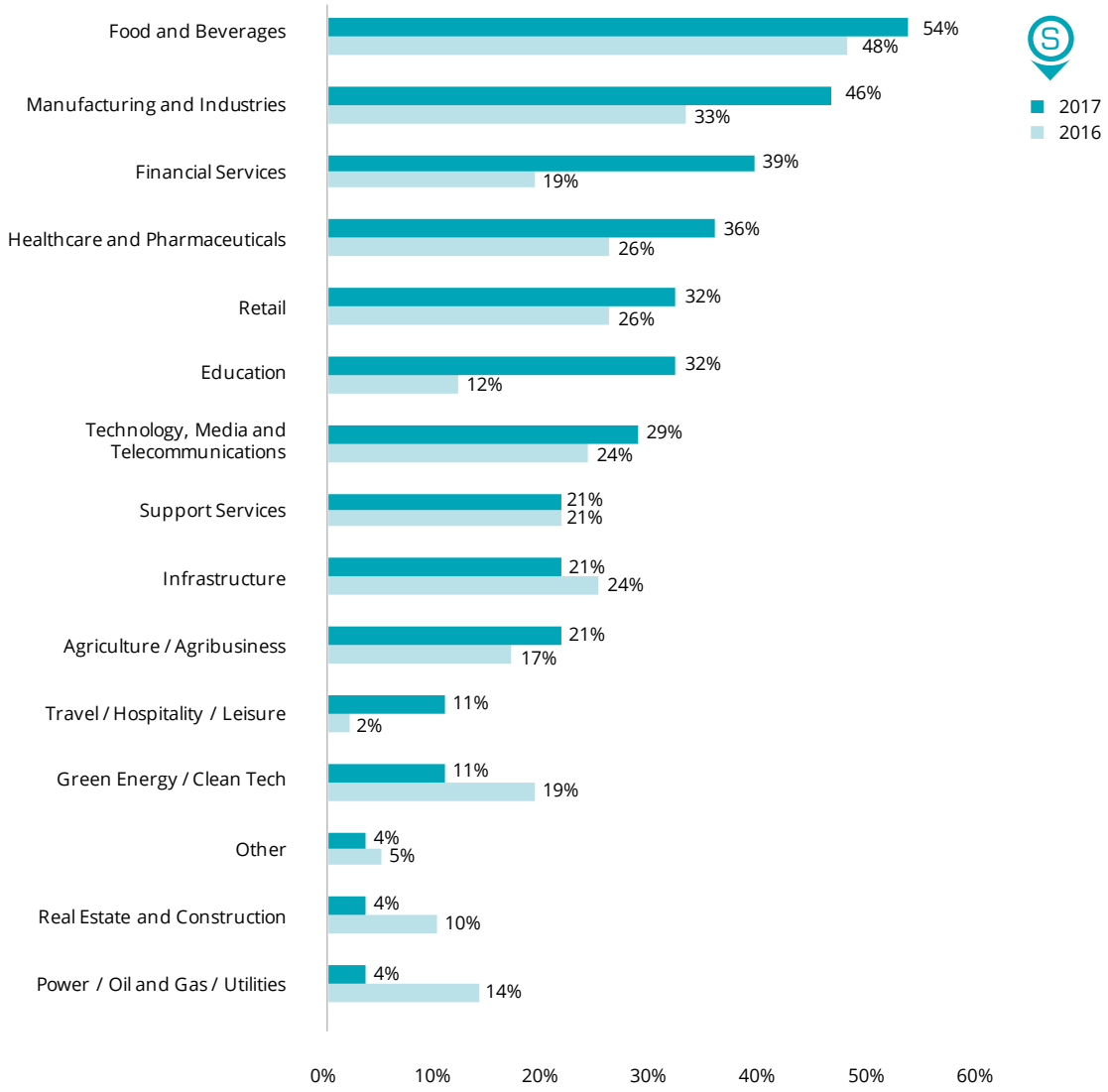
Driven by rising populations and middle class growth, East Africa's sector focus is primarily expected to be on agriculture and agribusiness, financial services, healthcare and pharmaceuticals, food and beverages, and education. Positive sentiment towards the agriculture and agribusiness sector is underpinned by the significant contribution of the sector to the region's economic growth and the need to invest across the value chain.

A burgeoning middle class continues to support increased investor interest in both the healthcare and education sectors as disposable incomes increase.

The region's financial services industry is traditionally well governed and growth is driven through innovation, including online and mobile platforms. East Africa is also highly integrated as a region, which is favourable for the financial services industry.

Southern Africa

Figure 10b. In the next 12 months, we expect to focus on opportunities in the following sectors*

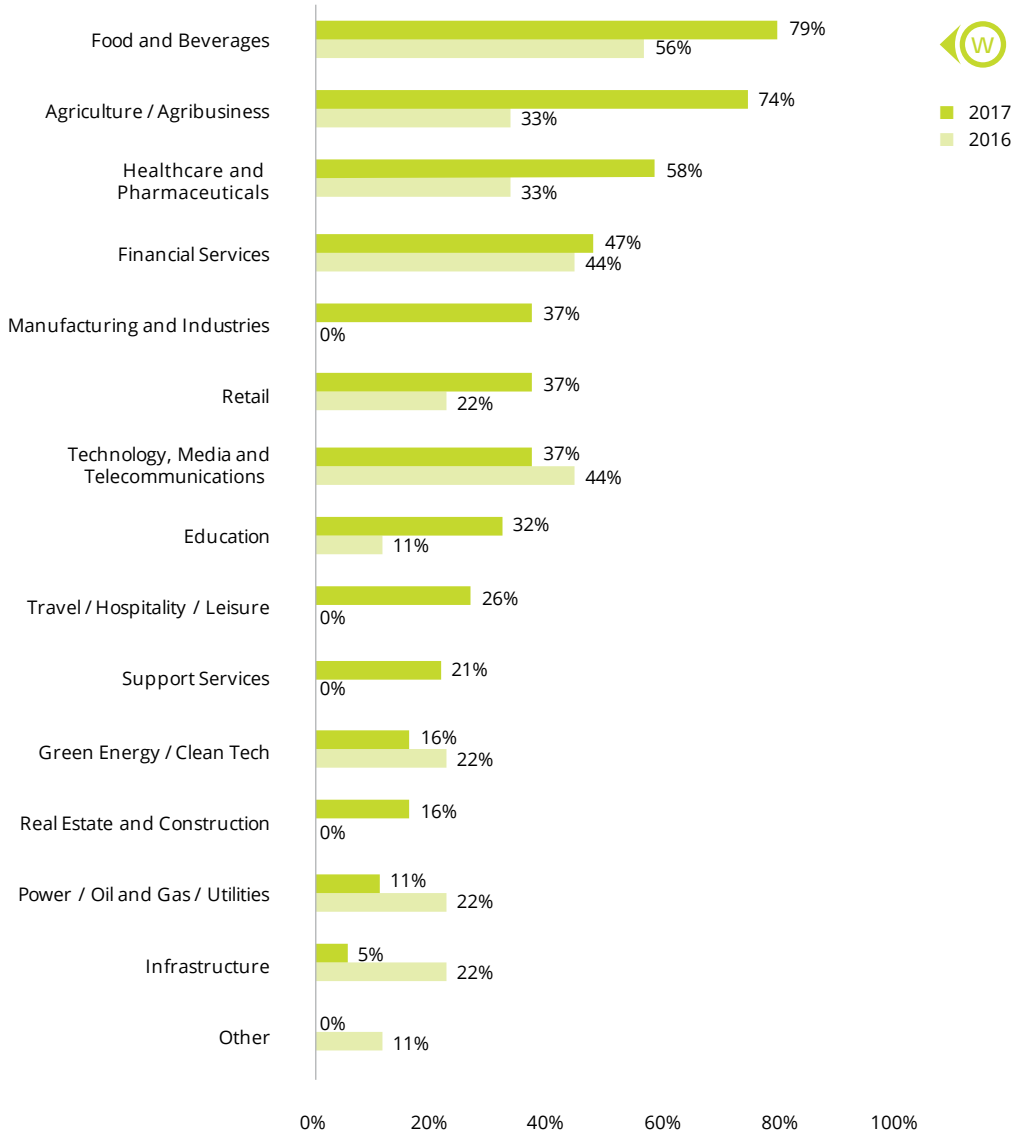


* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

The largest sector focus in Southern Africa continues to be food and beverages. In 2017, there is increased interest in manufacturing and industries despite the sharp headwinds facing manufacturing in South Africa. Other key sector focus areas for the next 12 months include financial services, healthcare and pharmaceuticals, retail, and education. This is consistent with the theme of PE investors being interested in consumer focused sectors.

West Africa

Figure 10c. In the next 12 months, we expect to focus on opportunities in the following sectors*



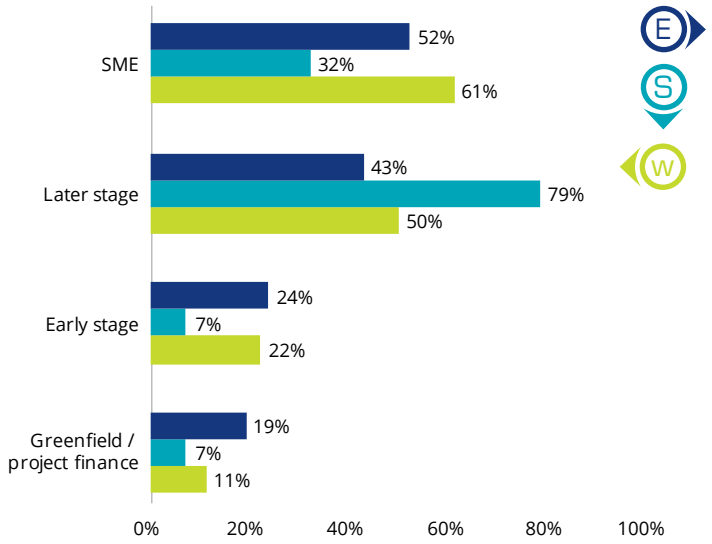
* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

West Africa has several characteristics attracting funds, including a large, young population that is urbanising with a growing middle class. Food and beverages, agriculture and agribusiness, healthcare and pharmaceuticals, and financial services sectors are key focus areas for investment in West Africa. Manufacturing and industries has also emerged as a new focus sector.

Company life stage focus

Investments are targeting mostly small and medium-size enterprises (SMEs) but also later stage companies across the regions.

Figure 11. In the next 12 months, we expect to target the following companies by region*



* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

East Africa

Respondents mostly expect to target SMEs over the next 12 months. East Africa's focus on SMEs results from a growing middle class and increased investment opportunities. The SME sector continues to offer better prospects as businesses come up with innovative solutions for their customers, creating the opportunity to build influential companies in East Africa.

Southern Africa

The majority of respondents look to target later stage companies in Southern Africa over the next 12 months. This is consistent with prior years, as companies offering sustainable cash flows offer lower investment risk in an uncertain economic environment. Very few funds expect to invest in greenfield or early stage companies.[17]

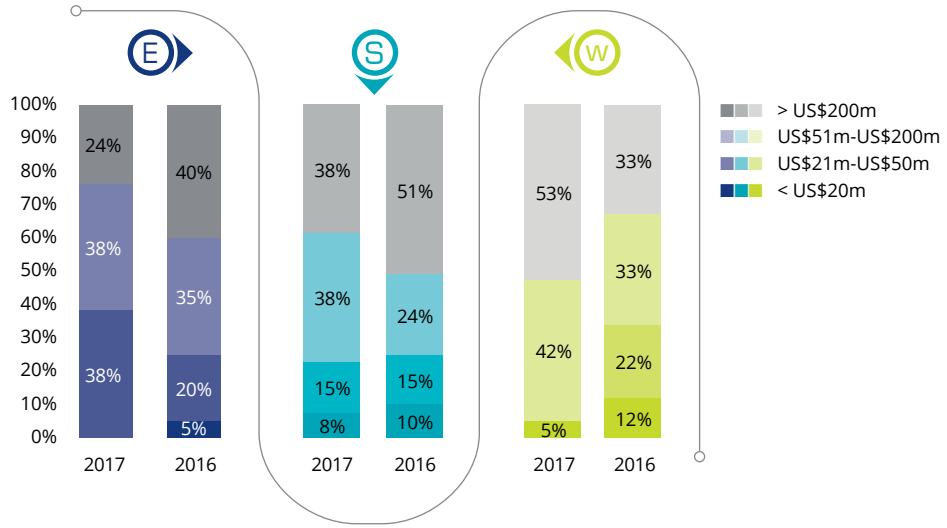
West Africa

For West Africa, the majority of respondents expect to invest in SMEs over the next 12 months, with a strong interest also shown in later stage companies. Looking at Nigeria, one of the reasons for this is the devaluation of the local currency. Companies in Nigeria are now smaller in US dollar terms. Later stage companies are also of interest as there is significant competition for big deals.

Total size of fund under management

Respondents mostly manage mid-size (US$51m-US$200m) to large-sized funds (above US$200m) in each region.

Figure 12. The total size of the fund we manage by region is



East Africa

No small funds (less than US$20m) are noted as being managed in East Africa, with most respondents managing funds ranging between US$21m and US$200m.

Southern Africa

Funds managed in the Southern African market are split evenly between large funds (above US$200m) and mid-sized funds (US$51m-US$200m). The increase in the US$51m-US$200m category is driven by the growth in mid-market funds in South Africa.

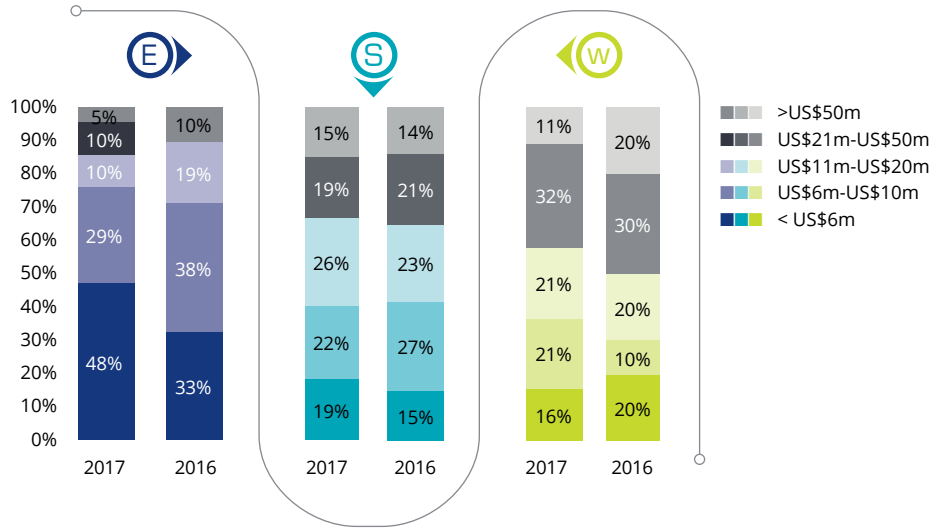
West Africa

For West Africa, more than half of respondents manage large funds (over US$200m), followed by mid-sized funds. In Nigeria, most PE firms that are investing in the country have an international reach with specified Africa funds. These funds mostly have a fund size exceeding US$200m. However, there has also been a rise in indigenous funds with fund sizes of between US$51m and US$200m.

Transaction sizes

Deal sizes vary across regions. Transaction sizes tend to be larger in West and Southern Africa than in East Africa.

Figure 13. Our investment focus per transaction is



East Africa

In East Africa, there has been an increased focus on small transactions (below US$6m). Strong economic growth in the region is set to provide opportunities for small business expansion, in line with a greater focus of respondents on SMEs.

Southern Africa

Southern Africa's target investment size per transaction remained broadly in line from 2016 to 2017. The largest share of respondents in 2017 are focusing on mid-sized deals in the US$11m-US$20m range.

West Africa

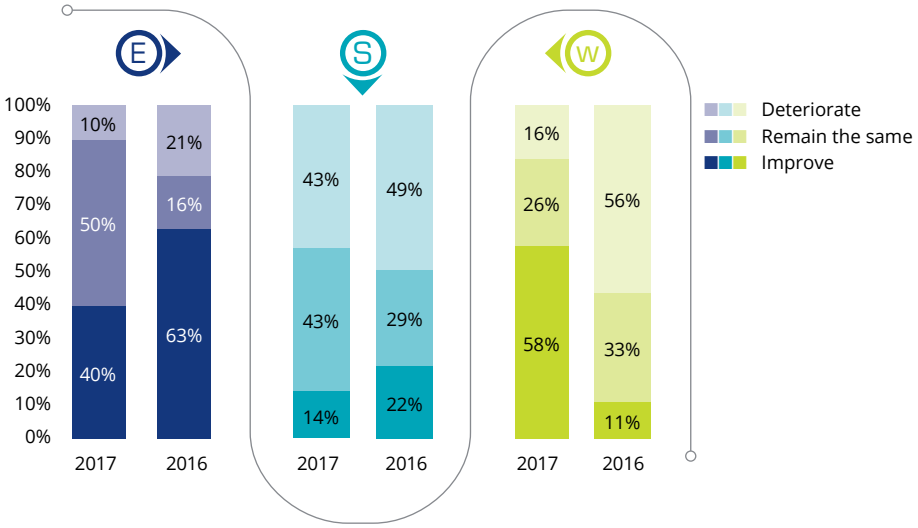
The largest investment size focus in West Africa is deals between US$21m and US$50m. The region's investment focus on smaller deals in the US$6m-US$10m range has also increased, in line with a rise in indigenous funds.

Fundraising

Fundraising environment

Expectations differ by region, with West Africa most optimistic of an improved fundraising environment in the near future.

Figure 14. Over the next 12 months, we expect the fundraising environment for private equity to



East Africa

For East Africa, respondents are still optimistic as fundraising has remained a key priority in the region. The fundraising optimism has been driven by PE activity gaining momentum, with most local PE funds investing out their vintage funds. Increased participation of local pension funds has also assisted with boosting fundraising.

Southern Africa

Largely driven by the challenging economic and political conditions in the region, the majority of respondents expect the fundraising environment for PE in Southern Africa to either deteriorate or remain the same.

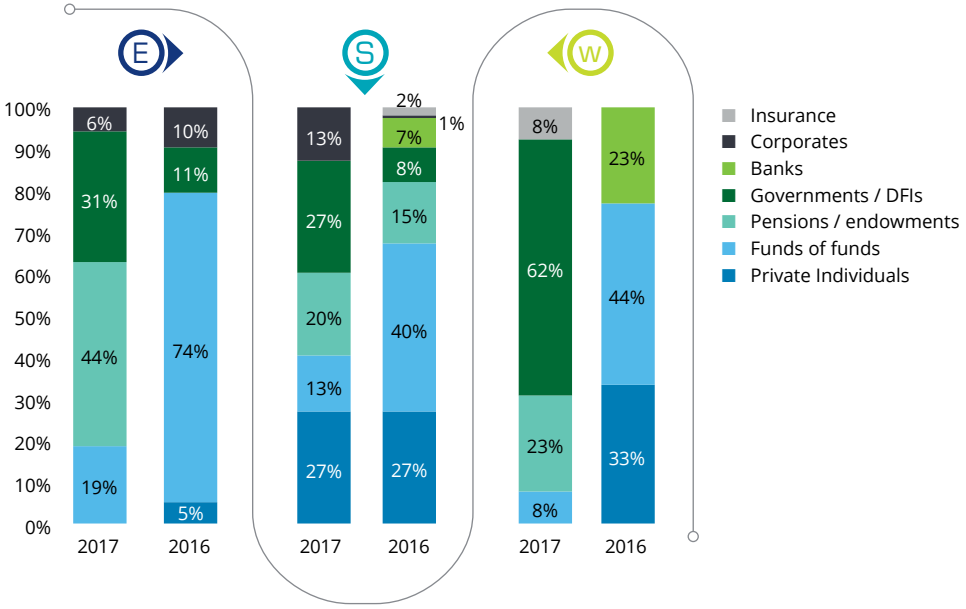
West Africa

In contrast to 2016, respondents for West Africa are more optimistic, with the majority expecting an improvement in the fundraising environment. The improved economic outlook for the region is a key contributor to the increased optimism in West Africa.

Sources of funding

Expected funding sources differ by region. These range from mainly governments/DFIs in West Africa, to mostly pensions/endowments in East Africa, and private individuals and governments/DFIs in Southern Africa.

Figure 15. We intend to raise funds within the next 12 months from the following source of third party funding



East Africa

In East Africa, a number of local PE investors intend to raise funds from local pension funds over the next 12 months, as pension funds are increasingly allocating more funds to the PE industry. Improving regulations such as the recognition of PE as a fully-fledged investment class by the pension industry regulator in Kenya is contributing to this.

Southern Africa

Given the relative market maturity, preferences for fundraising in Southern Africa are more evenly distributed, with capital expected to be raised mainly from private individuals, governments and DFIs, and pensions or endowments.

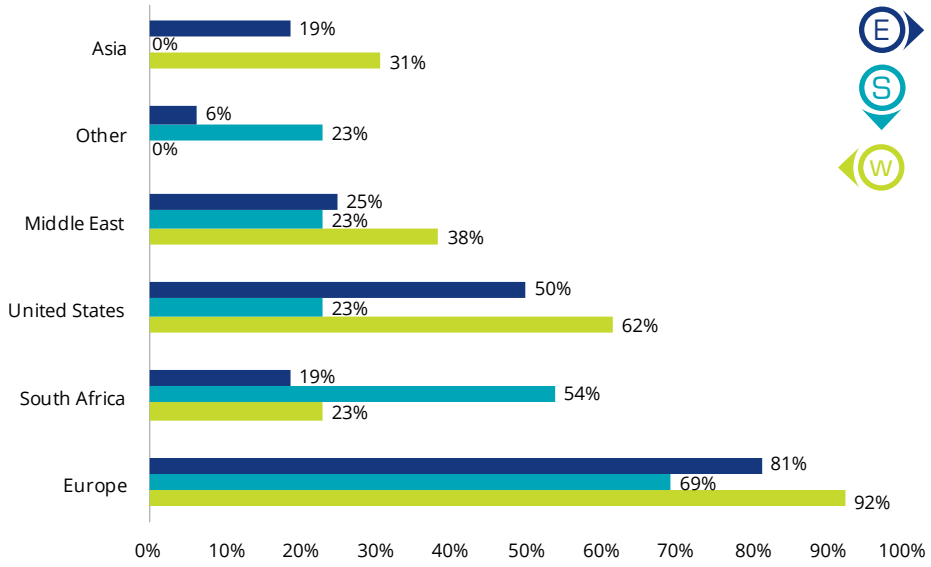
West Africa

In West Africa, most respondents intend to raise funds from governments and DFIs. Going forward, pension funds are relatively new but still becoming an increasingly interesting option in the region. Recently approved regulation, which allows pension funds to invest in PE, is likely to drive further opportunities for fundraising activities.

Capital raising: geographical source

Across all regions, Europe is anticipated to be the most favoured geographical source from which to raise capital.

Figure 16. We intend to raise funds within the next 12 months from the following geographical source*



* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

East Africa

Europe and the US are anticipated to be key geographical sources of funding as more international funds set up in the region. In addition, the region's diversified economy continues to provide unique opportunities compared to other regions, thereby attracting a variety of financiers from different territories.

Southern Africa

South Africa is anticipated to be a favoured source for the Southern Africa region. This is to be expected, given the country's developed capital markets. Europe is also expected to be the largest geography for Southern Africa from which to raise capital.

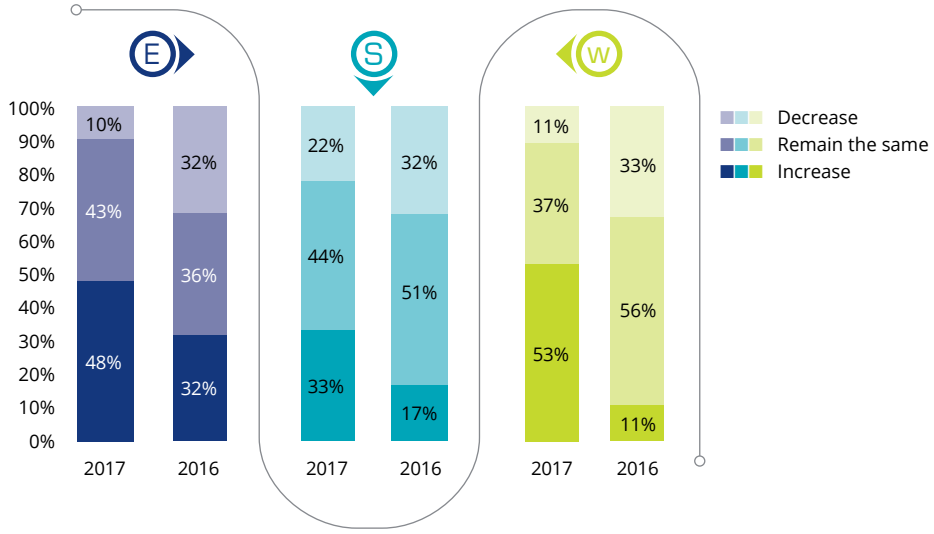
West Africa

Europe, the US, and the Middle East are expected to be the top sources of funding for West Africa. Asia is also expected to be a key capital source for West Africa going forward.

Debt finance

Debt finance access for transactions is expected to increase mainly in West Africa but also in the East African region. Southern Africa's already higher exposure to debt finance is anticipated to remain largely the same.

Figure 17. Over the next 12 months, we expect access to debt finance for transactions by region to



East Africa

In East Africa, respondents expect access to debt finance to increase due to the introduction of the interest rate cap in Kenya, which would make debt a cheaper source of financing as compared to previous years. However, lending institutions have become more stringent in their lending policies as a measure of reducing their credit risks.

Southern Africa

Sentiment for Southern Africa implies that debt finance for transactions could remain the same. However, a rising share of respondents expect access to debt finance for transactions to increase over the next 12 months.

West Africa

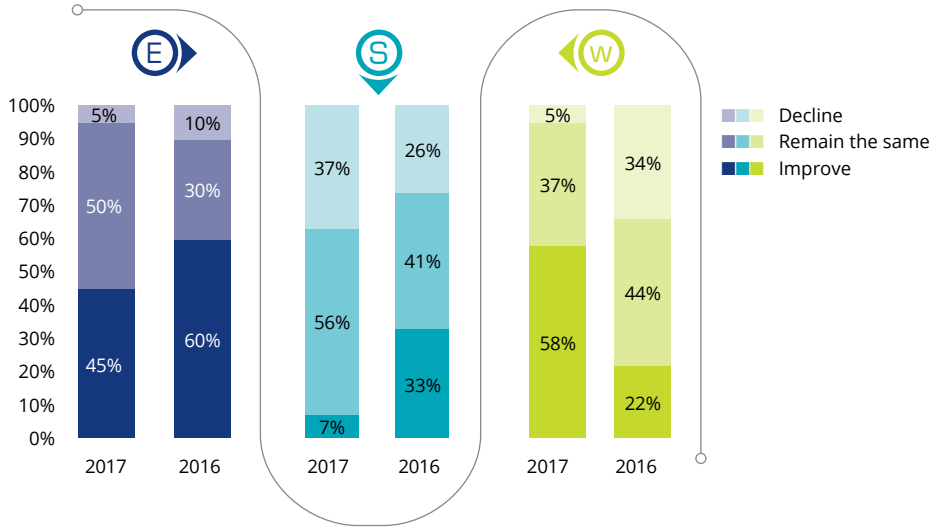
An increase in access to debt finance for transactions is anticipated in West Africa. This expectation stems, in part, from commercial banks (mostly large international entities) increasingly offering products specifically tailored to PE firms.

Exits

Exit environment

While West Africa's exit environment is expected to improve strongly in the next 12 months, East and Southern Africa expect to see limited change in the exit environment over the same period.

Figure 18. During the next 12 months, we expect the exit environment by region to



East Africa

In East Africa, the exit environment is still expected to be favourable, with the majority of respondents either expecting the environment to improve or remain the same. A small percentage of respondents expect a decline due to the uncertainty surrounding the national elections in Kenya and Uganda.

Southern Africa

South Africa's challenging debt funding environment, from low business and market confidence, is likely to put pressure on the exit environment. Nevertheless, the majority of respondents still expect the exit environment to remain largely the same, although there is an increased expectation for the exit environment to decline over the next 12 months.

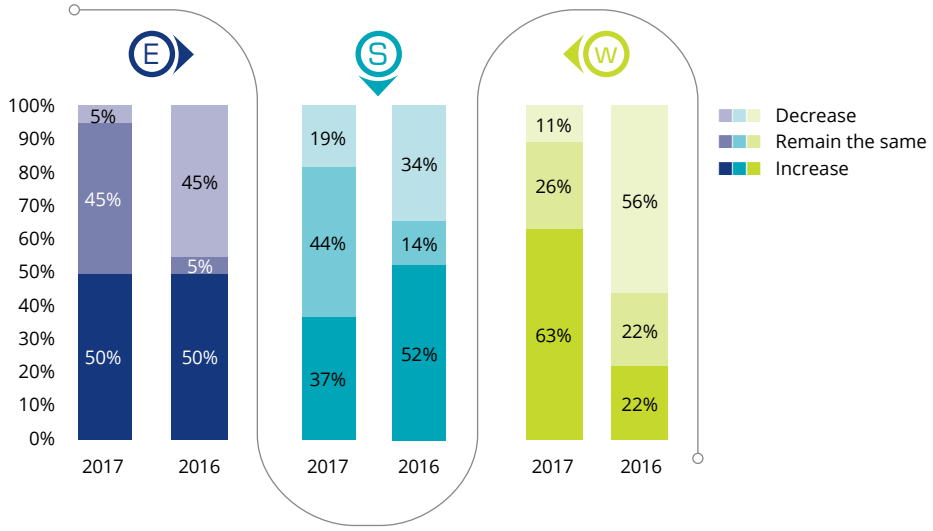
West Africa

For West Africa, most respondents expect an improvement in the exit environment over the next 12 months, as the economic environment in markets such as Nigeria improves.

Exit volumes

Most respondents expect the volume of exits to increase or remain the same over the next 12 months, given the general uptick in SSA's economic outlook.

Figure 19. During the next 12 months, we expect the volume of exits to



East Africa

The positive economic outlook for East Africa supports the 2017 survey results that exit volumes will either increase or remain the same over the next 12 months.

Southern Africa

Although dependent on the cycle of funds for the region, most respondents expect the number of exits to remain the same in Southern Africa.

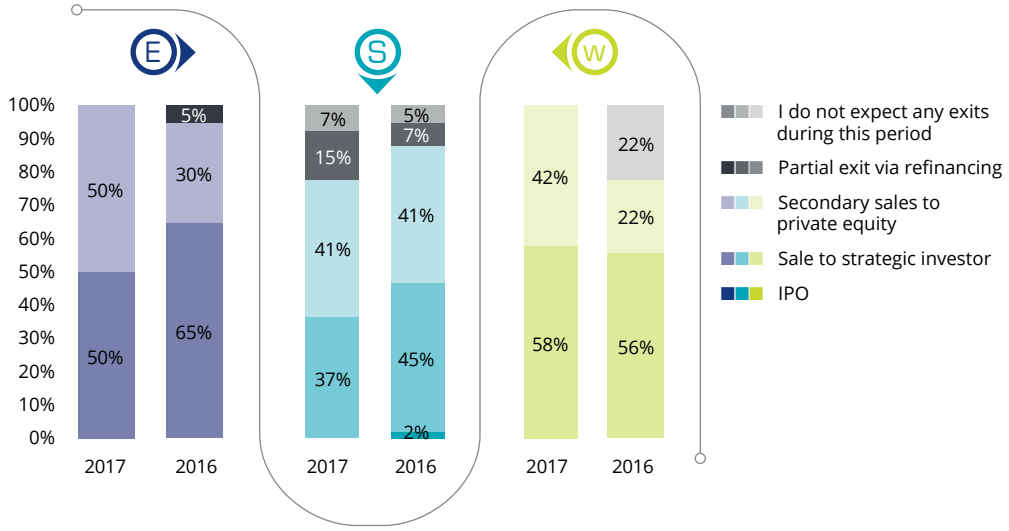
West Africa

Similarly in West Africa, exit volumes are dependent on the cycle of funds in the region. Over the next 12 months, exit volumes are expected to increase compared to the prior year.

Exit routes

The most prevalent exit routes are sales to strategic investors and secondary sales to PE funds, with small funds preferring exits via sales to large funds, especially those that are looking to build scalable businesses for sale to strategic investors.

Figure 20. During the next 12 months, we expect the exit route that is most dominant in our region to be



East Africa

Given the prevalence of small funds, East African focused PE funds remain in favour of sales to strategic investors and secondary sales to other private equity funds.

Southern Africa

Similarly, secondary sales to PE funds and sales to strategic investors are also preferred exit routes in Southern Africa. The increased competition for quality assets is expected to result in auctions becoming a larger exit route in Southern Africa to drive deal value.

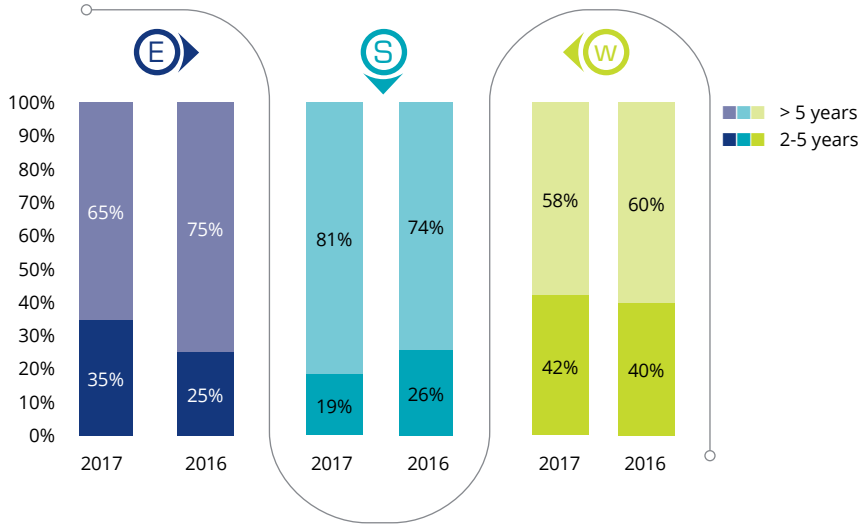
West Africa

Based on survey results, sales to strategic investors and secondary sales to PE funds are expected to be the most prominent exit routes in West Africa over the next 12 months.

Average lifecycle

The majority of respondents across all the surveyed regions expect the average lifecycle for investments made in the current year to be more than five years.

Figure 21. We expect the average lifecycle from initial investment to exit for investments made in the current year to be



East Africa

For East Africa, the majority of 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.

Southern Africa

In Southern Africa, most respondents expect the investment lifecycles to be more than five years. Given the challenging economic and political environment, particularly in South Africa, investments are being held for longer than five years to maximise fund returns and increase exit multiples.

West Africa

In West Africa, while the longer-term investment horizons are likely to be used as a manner via which to adapt to current economic conditions, a slightly more optimistic outlook has seen a small shift in lifecycle mix from the prior year.

Limited partners

Approximately half of the survey respondents indicated that they expect to invest in a mid-sized regionally focused fund.

Most LPs surveyed are DFIs or financial institutions. There are mixed views about investing in regionally focused funds. Just under half of LPs noted that they would, while just over half indicated that they would not invest in a regionally focused fund over the next 12 months.

Respondents that indicated they expect to invest in a regionally focused fund noted two primary motivations for this. The motivations are portfolio diversification and economic growth prospects.

When looking to invest in a regionally focused fund, LPs are most interested to invest in mid-sized growth play funds. This is followed by a preference for SME focused funds.

Figure 22. What kind of LP is your organisation?

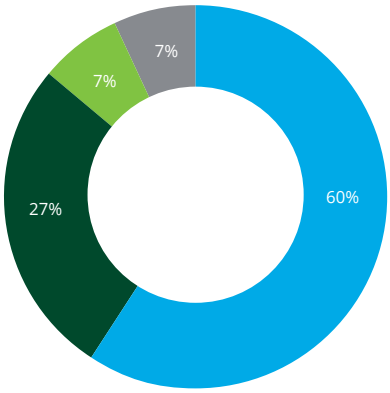


Figure 23. During the next 12 months, do you expect to invest in a regionally focused fund?

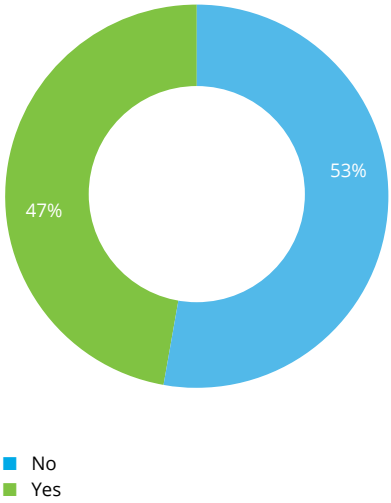
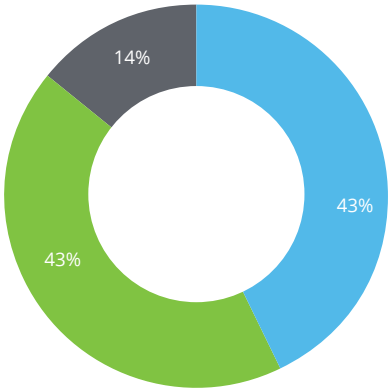
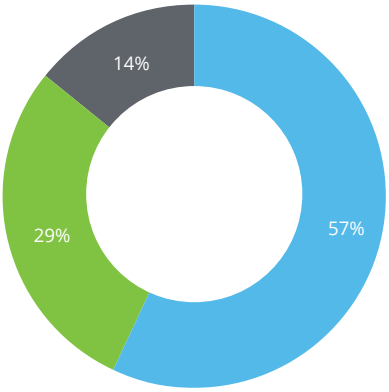


Figure 24. What is your main motivation for investing in a regionally focused fund?



- Portfolio diversification
- Economic growth prospects for the region
- Interest in the region specific to organisation's background or mandate

Figure 25. In what type of regionally focused fund are you most interested?



- Mid-sized growth play funds
- SME focused funds
- Sector specific funds

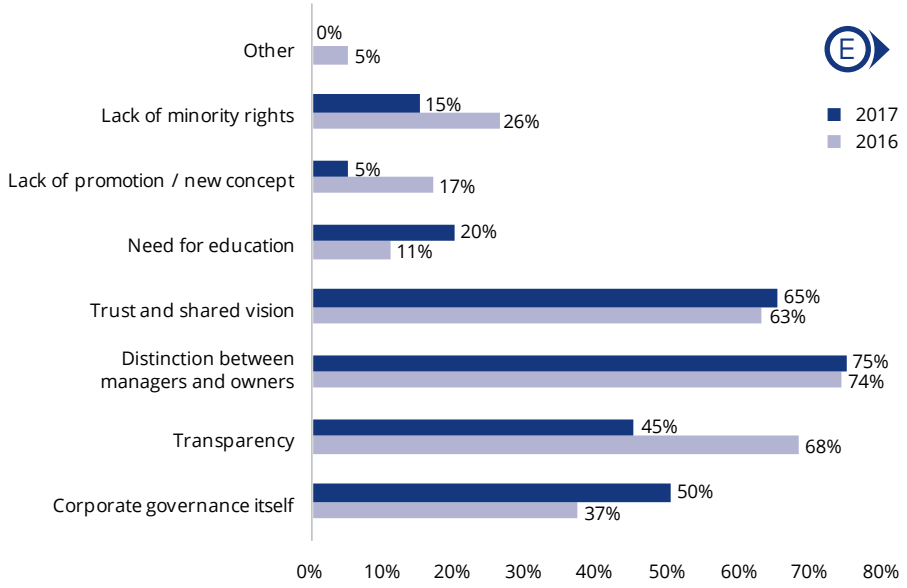
Challenges ahead

Top challenges related to improving corporate governance

Across the regions, there are three key challenges to improving corporate governance that stand out – distinction between managers and owners, corporate governance itself, and transparency.

East Africa

Figure 26a. We expect the three biggest challenges related to improving corporate governance for our portfolio companies to be*

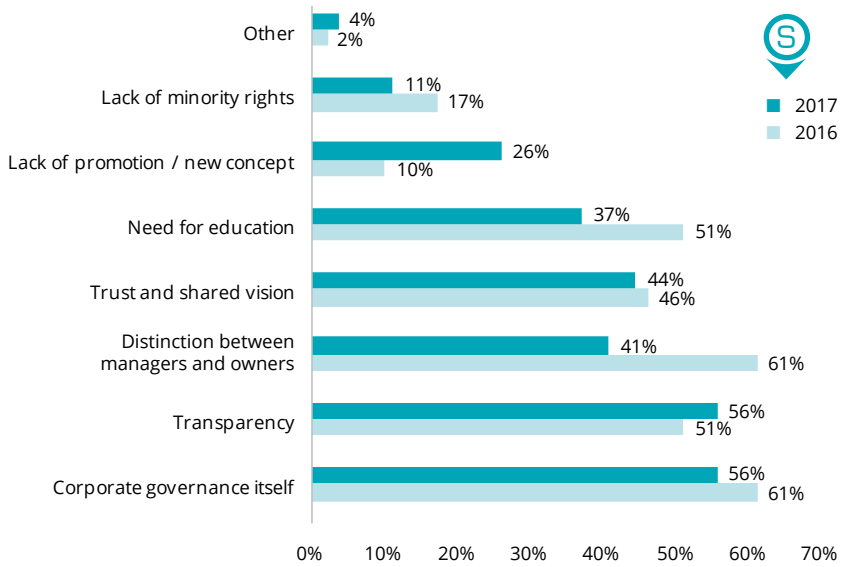


* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

In East Africa, the distinction between managers and owners is the biggest challenge to improving governance.

Southern Africa

Figure 26b. We expect the three biggest challenges related to improving corporate governance for our portfolio companies to be*

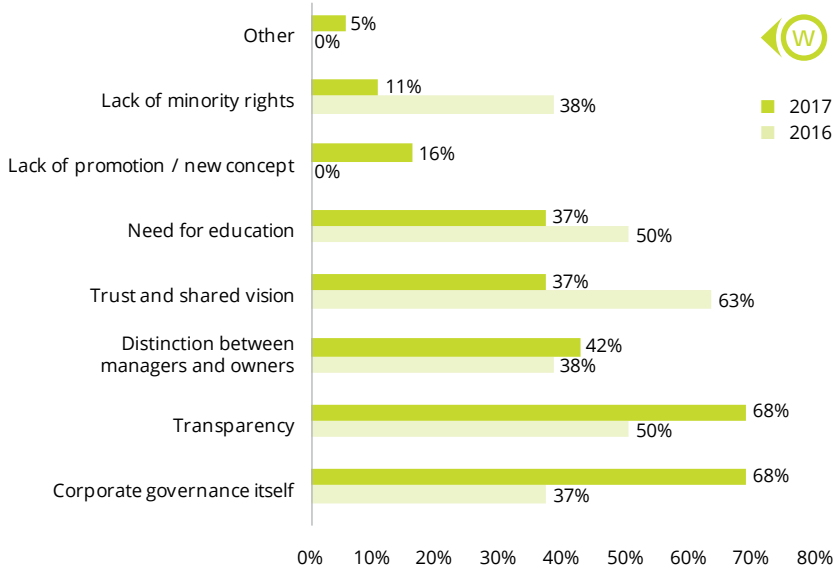


* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

In Southern Africa, respondents are equally concerned about transparency and corporate governance, and less so about the distinction between manages and owners.

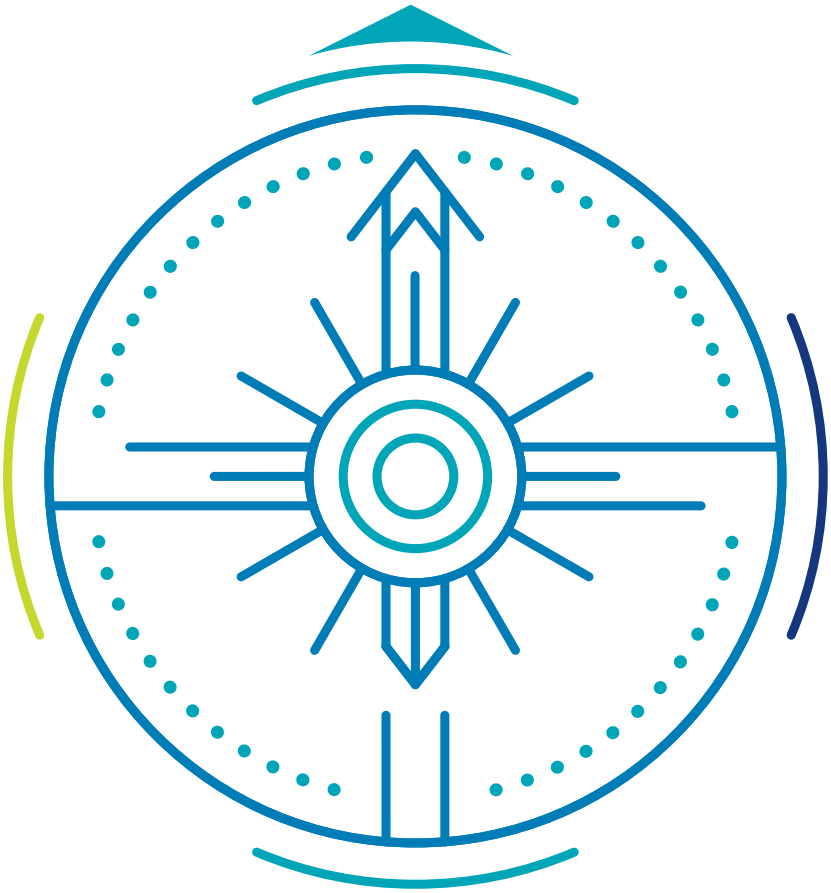
West Africa

Figure 26c. We expect the three biggest challenges related to improving corporate governance for our portfolio companies to be*



* Note: answers do not sum to 100%, given that respondents were allowed multiple answers.

Similarly, transparency and corporate governance are front of mind in West Africa, followed by the distinction between managers and owners.



Top challenges related to the international environment

Impact of Brexit on Africa-UK trade

Other potential challenges that may affect PE in SSA include the issue of the UK leaving the EU. However, most respondents across all three regions expect this to have a minimal impact, given the large degree of uncertainty regarding Brexit.

For example, one respondent noted, "*given the reduced focus and potential trade barriers with Europe, this may actually increase the UK's willingness and opportunity to increase its trade with Africa, which could be positive in the longer term for the UK*". This sentiment was evident across the regions.

However, some concerns raised include "*that Brexit would impact and reduce the UK's growth rate in the near future, which could reduce Africa's ability to export to the UK*".

Impact of rising protectionism on Africa-US relations

In contrast to the limited expectations of a notable fallout from Brexit, the majority of respondents across all regions indicate that they expect lower foreign aid from the US. Donald Trump ran on a campaign of 'America First', and his tenure to date as president has given little indication that SSA is a priority.

Concerns over lower foreign aid inflows from the world's largest economy are mostly expected for West Africa, with three quarters of respondents expecting a decrease in financial aid from the US. East Africa and Southern Africa are closely matched, with about two thirds of respondents expecting lower aid inflows from the US to these regions.

While the majority of respondents across all three regions expect trade agreements with the US to be extended, lower trade is a concern. This is in line with the Trump administration's more protectionist stance in an effort to decrease the country's own trade deficit. Consequently, about two in five respondents do not expect bilateral trade agreements to be extended.

The most important of such agreements is the African Growth and Opportunity Act (AGOA), which has already come under review in several East African countries (Rwanda, Tanzania, and Uganda). More such reviews are likely to be seen across SSA.

Figure 27. Given rising protectionism in the US under President Donald Trump's leadership, do you believe the US will decrease its foreign aid flows to Africa?

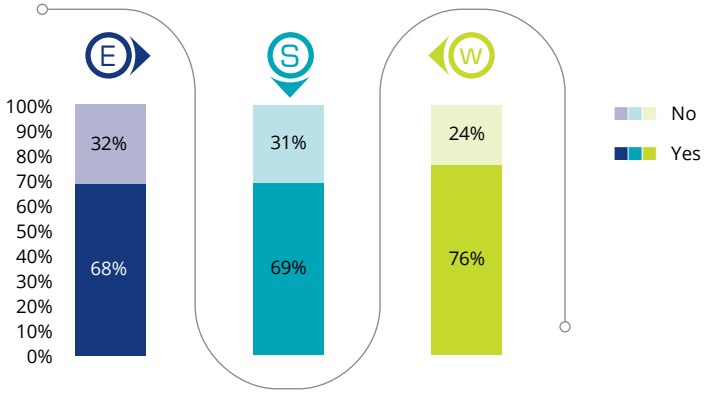
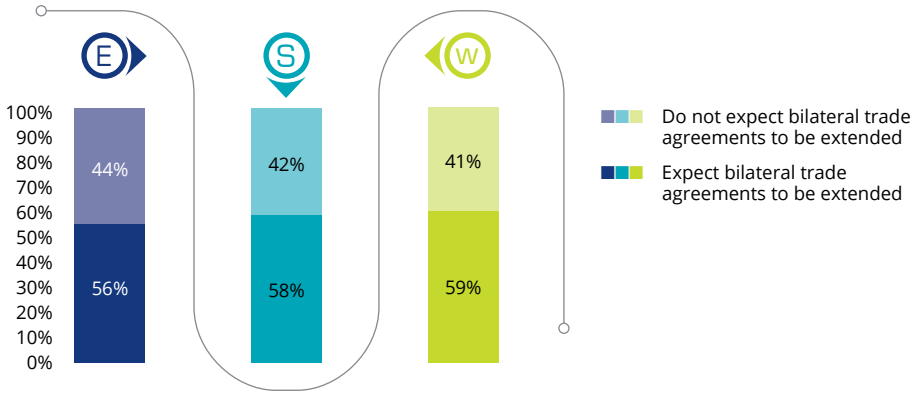


Figure 28. Do you believe bilateral trade agreements between the US and various SSA countries will be affected?



Survey methodology

The 2017 Deloitte Africa Private Equity Confidence Survey (PECS) focuses on three regions, surveying respondents with operations, and thus activities and knowledge of each of these regions. These include East Africa, Southern Africa and West Africa.

The survey was carried out by leveraging the Africa-wide network and presence of Deloitte in Africa.

The survey was conducted between April and June 2017 and was targeted at general partners (GPs) operating in the three regions, with additional questions aimed at limited partners (LPs).

For GPs, 75 usable responses were received. The number of responses from LPs was sufficient to draw conclusions for Southern Africa and East Africa only.

The questions posed to respondents were in line with those asked in previous editions of the PECS, with additional questions relating to the potential challenges lying ahead.

Endnotes

1. International Monetary Fund (IMF). 2017. World Economic Outlook (WEO) database, October update. Available [Online]: http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx
2. Ibid.
3. Ibid.
4. Ibid.
5. World Bank. 2017. Doing Business 2017: Equal Opportunity for All. Available [Online]: http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf
6. IMF, 2017
7. Ibid.
8. This section, and all sections that follow, unless otherwise specified, are based on the responses received by GPs for the 2017 PECS.
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Acronyms

ANC	African National Congress
AGOA	African Growth and Opportunity Act
CBK	Central Bank of Kenya
CBR	Central Bank Rate
DFI	Development Finance Institution
EAVCA	East Africa Venture Capital Association
EU	European Union
FY	Fiscal year
GPs	General partners
GDP	Gross domestic product
IMF	International Monetary Fund
IPO	Initial Public Offering
LPs	Limited partners
p.a.	per annum
PE	Private equity
PECS	Private Equity Confidence Survey
SAVCA	Southern African Venture Capital and Private Equity Association
SMEs	Small and medium-sized enterprises
SSA	Sub-Saharan Africa
StatsSA	Statistics South Africa
UK	United Kingdom
US	United States

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