



BRIGHTAFRICA

PRIVATE EQUITY

OCTOBER 2017

RISCURA

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FOREWORD



Africa sustained strong investor interest throughout 2015 and 2016, despite recent turmoil affecting many African countries. Difficulties in oil producing countries, wide-spread political tensions, currency depreciations and persistently low commodity prices have caused strain on the continent's development and trade. Despite the slowdown in several of Africa's larger economies, such as Nigeria and South Africa, there are plenty of investment opportunities across the continent. The industry has seen increasing optimism in East Africa, where fast growing economies include Kenya and Ethiopia. According to the 2016 Deloitte SAVCA Africa Private Equity Confidence Survey, most respondents expect deal activity to increase across East Africa, West Africa and Southern Africa. A sustained belief in the buying power of a growing population and middle class drives investor focus on consumer goods across most African countries. Other sectors expected to see greater focus in 2017 include agribusiness, technology, financial services, healthcare and pharmaceuticals.

Heleen Goussard, Head of Independent Valuations, RisCura

ABOUT RISCURA

With African roots and a global reach, RisCura is an independent investment advisor and financial analytics provider that offers investment decision support in developed and emerging markets. RisCura provides a range of services to the largest investor base in Africa in listed and unlisted investments. We service institutional investors, asset managers, hedge funds and private equity clients with over USD 200bn in assets under advice.

ABOUT BRIGHT AFRICA

Africa's investors have become markedly more sophisticated in recent years. They understand that the continent is one of the world's fastest-growing and most rapidly changing regions, and they need to look past the headline GDP numbers to understand what is really happening on the continent. More importantly, Africa's investors want to know the most effective ways to harness the continent's growth.

RisCura — through its ongoing research endeavour Bright Africa — seeks to answer some of these questions by providing insight into the drivers, enablers and managers of investment on the continent. This includes in-depth updates on:

- Infrastructure development
- Africa's imports and exports
- Institutional investors including pension funds, insurers and DFIs
- Africa's listed equity markets
- Africa's unlisted equity markets

RisCura's Bright Africa research is constantly updated, with new sections added regularly. This report focuses on "Africa's unlisted equity markets" update. The findings can be accessed at www.riscura.com/brightafrica.

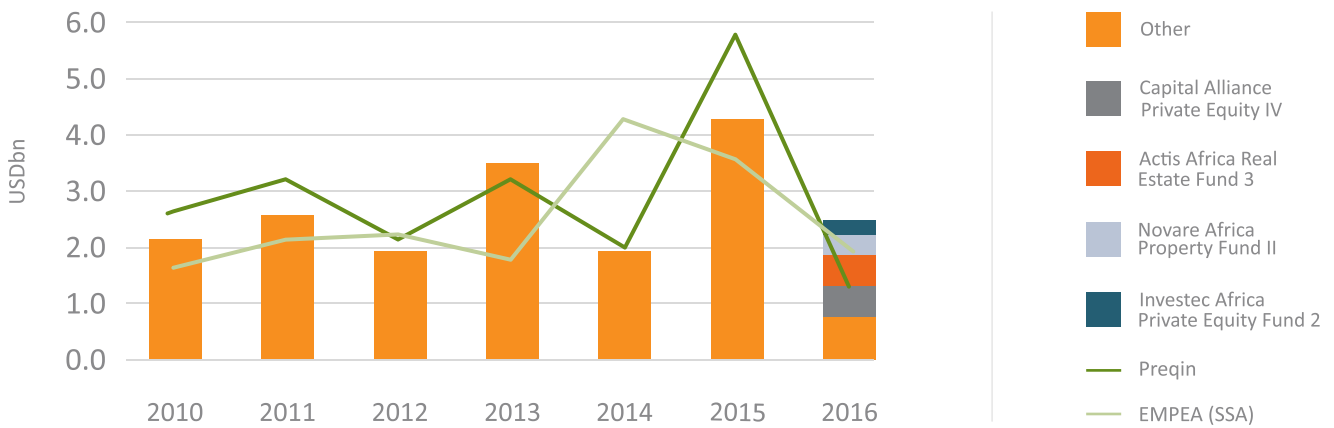
🐦 For more information, follow @BrightAfrica_ on Twitter.

1. PRIVATE EQUITY FUNDRAISING OVER TIME

Funds that announced a final close in 2016 include Actis Africa Real Estate III, covering Sub-Saharan Africa, at USD 500m and Capital Alliance Private Equity IV, covering West Africa, at USD 570m. Total fundraising in 2016 reached USD 2.3bn, compared to total fundraising of over USD 4bn in 2015. However, 2015 was an outstanding year for fundraising with several large funds closing, including Helios III at USD 1.1bn and Abraaj at USD 990m (Source: AVCA Private Equity Data 2016). If the two real estate funds are excluded, the fundraising activity in 2016 was slow, as can be expected after the record year of fundraising in 2015 and the macroeconomic challenges across the continent.

FUNDRAISING TAPERS OFF IN 2016

Total value of Africa PE fundraising, by year of final close, USDbn



Source: AVCA, Preqin, EMPEA, RisCura analysis

2. REGIONAL FUND AND TRANSACTION SIZE

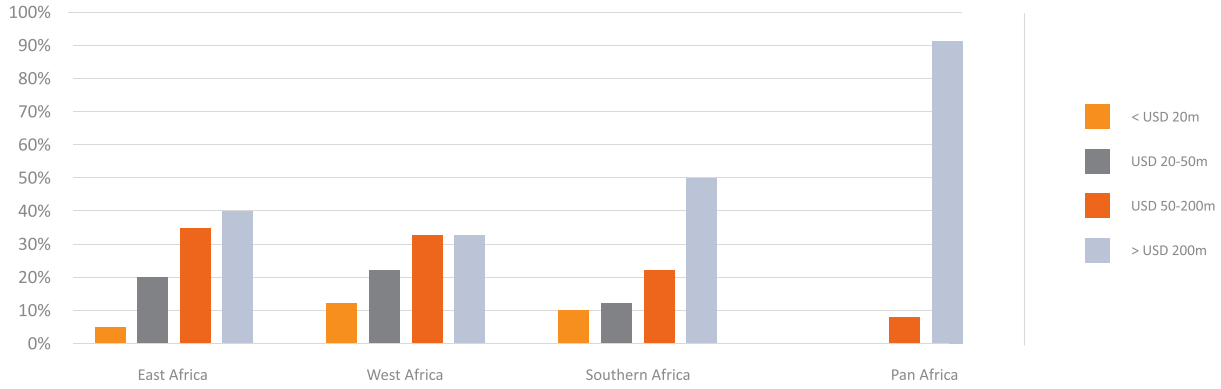
In regions where the capital markets and private equity industry are more developed, companies and transactions are larger, supporting bigger funds. As a result, Southern African and Pan African funds continue to have the largest portion of funds over USD 200m. The management costs of a fund with continentwide presence are much greater than a fund with regional focus. Therefore, almost all Pan African funds need to have commitments greater than USD 200m. Due to their size, Pan African funds focus on larger transaction sizes than regional funds, leaving them to compete in very different markets.

Smaller funds are more common in less developed parts of the continent, such as East Africa. Compared to 2015, Southern Africa has a smaller proportion of funds greater than USD 200m and a greater proportion in the smaller fund size buckets. This may be indicative of greater fundraising in Southern Africa excl. South Africa. The move to larger funds in East Africa is evidence of the growth and interest that currently exists in the region. This indicates that Africa's private equity industry is growing and becoming more diversified.

When considering transaction sizes, it appears that investment focus has shifted over 2016 in the East African and West African markets. East African funds' move towards targeting small and medium enterprises has resulted in a greater focus in the USD 6m to USD 10m size bucket. In West Africa, the market appears to be most active at the bottom and top of the range in terms of transaction size. This may well be a result of a combination of larger transactions by Pan African funds and smaller transactions by regional funds.

GREATER FUND SIZE IN DEVELOPED REGIONS

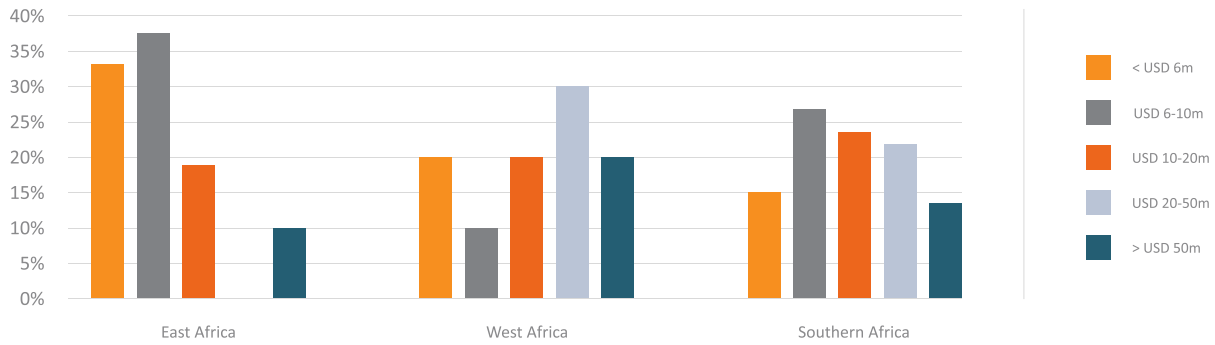
Portion of funds within size buckets



Source: 2016 Deloitte SAVCA Africa Private Equity Confidence Survey.

INVESTMENT FOCUS SHIFTING IN SMALLER MARKETS

Portion of transaction focus within size buckets (2016)



Source: 2016 Deloitte SAVCA Africa Private Equity Confidence Survey.

3. AFRICA'S PRIVATE EQUITY GEOGRAPHIC FOCUS

Investment activity tends to lag the fundraising cycle, as investors need to deploy cash shortly after it has been raised. Private equity transaction activity recovered in 2016, from a dip in 2015. Following a record amount of fundraising in 2015, funds were well placed to deploy capital going into 2016.

Activity in 2016 remained concentrated in South Africa and the rest of Southern Africa, with over 50% of the total number of transactions. South Africa alone made up approximately 38% of the 2016 total, slightly up from 35% in 2015. Other regions with significant activity include East Africa and Nigeria with 14% and 11% of the total, respectively.

Activity in Southern Africa excl. South Africa has grown by over 70% since 2015 and includes some of the largest transactions recorded in 2016. Activity remains low in Ghana and Other West African countries, comprising Sierra Leone, Liberia, Gambia and Guinea-Bissau.

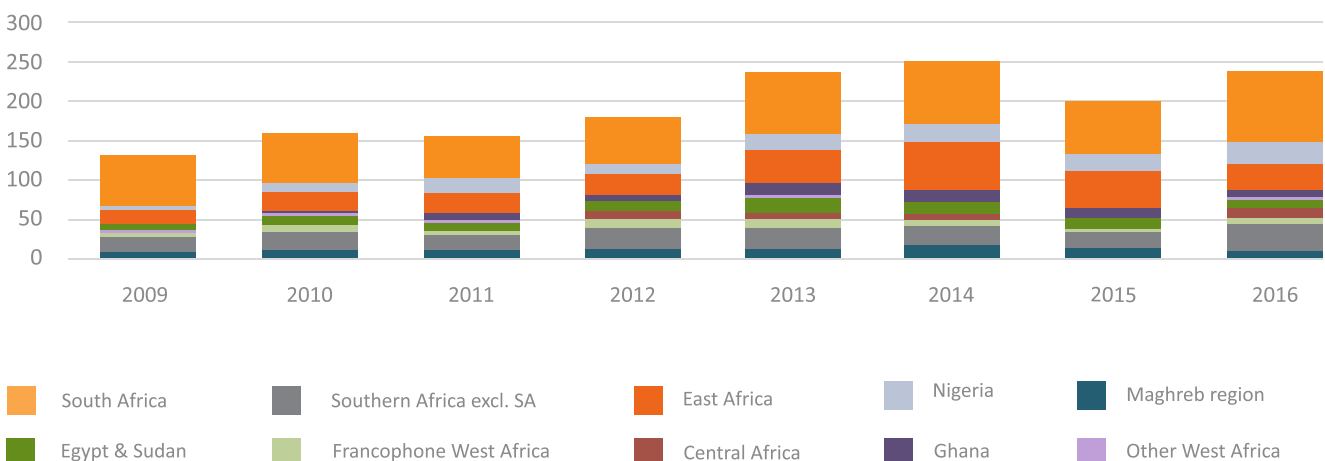
It is expected that South Africa will continue to attract the most private equity investment for the foreseeable future. However, more negative sentiment towards South Africa and optimism surrounding other regions may contribute to a shift in regional focus going forward.

Nigeria and Angola were the countries hardest hit by the drop in the oil price. Other commodity exporters affected include Zambia and Ghana. Although a slight recovery in oil and commodity prices has restored some economic stability, growth in the affected countries will still be hindered in the near future. High growth rates are expected in countries that are net resource importers, such as Kenya, Cote d'Ivoire and Senegal.

As fund managers obtain greater knowledge of the state of countries affected by economic difficulties and are able to manage risks, activity is likely to be distributed further across Africa.

TRANSACTION ACTIVITY RECOVERS IN 2016

Number of PE transactions by region



Source: RisCura, S&P Capital IQ

4. AFRICA'S PRIVATE EQUITY SECTOR FOCUS

The private equity investment focus is in line with available opportunities and driven by changing consumer needs.

Interesting trends in 2016 activity include a high number of transactions in information technology, at 21% of the total. This sector includes internet software and services industries. According to the SAVCA 2017 Private Equity Industry Survey, the largest reported deal in 2016 was the investment by Vantage Mezz III in Vumatel (Pty) Ltd, with an enterprise value of USD 1.9bn. The financials sector has the next highest number of transactions at 17% of the total.

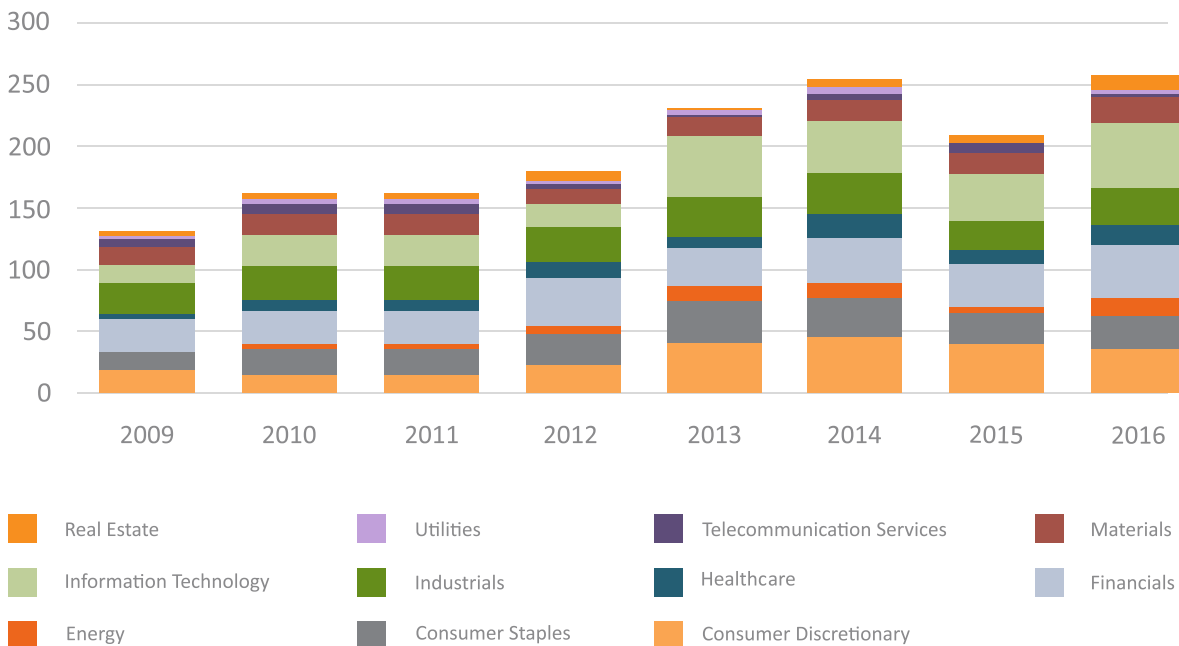
Consumer discretionary and consumer staples make up 15% and 11% of the total number of transactions, respectively. Consumer products have historically been the focus of African funds. This is as expected due to the opportunities resulting from the overall

growing population and growing middle class in emerging market economies. Within consumer discretionary, investor interest has moved toward online retail, education services, advertising and publishing, possibly showing a shift from a lower to a higher LSM group.

Sectors experiencing significant growth in activity include energy, where activity has more than tripled. Here investor focus is on renewables, benefiting the population and meeting high demand. Healthcare and pharmaceuticals have also shown significant growth over the year as consumers prioritise health and medical treatment, resulting in an increase in demand for quality healthcare institutions.

INFORMATION TECHNOLOGY IN DEMAND

Number of PE transactions by sector



Source: RisCura, S&P Capital IQ

5. LISTED EV/EBITDA MULTIPLES

Listed multiples across the Latin America (LatAm) and BRICS markets have moved in sync with developed markets in the last few years, with a clear upward trend. African markets have diverged since the beginning of 2015, creating a large disparity from multiples across the rest of the globe.

Multiples in African markets have dropped significantly from their 2014 levels and have continued to drop into 2017. Most African countries experienced falling EV/EBITDA multiples; where most multiples ended 2016 at below 8x. Contributing to this is investor sentiment and the resultant flow of capital towards investment opportunities in markets that have a more stable outlook than African markets.

Multiples in Kenya have decreased the most, at 38% over the year; its average EV/EBITDA multiple moving from 8x at December 2015 to 5x at December 2016, becoming the lowest in Africa. Multiples in Ghana and Francophone West declined by 34% and 35%, respectively.

Nigeria's average EV/EBITDA multiple fell 16% to 6.2x at the end of 2016. The country's economy slipped into recession during 2016 due to economic shocks, security issues, currency depreciation, rising inflation and inconsistent monetary policies. This shows diminished investor confidence towards Africa's once largest economy.

In 2016, there was a small increase in multiples in South Africa and Southern Africa as well as in the Maghreb region.

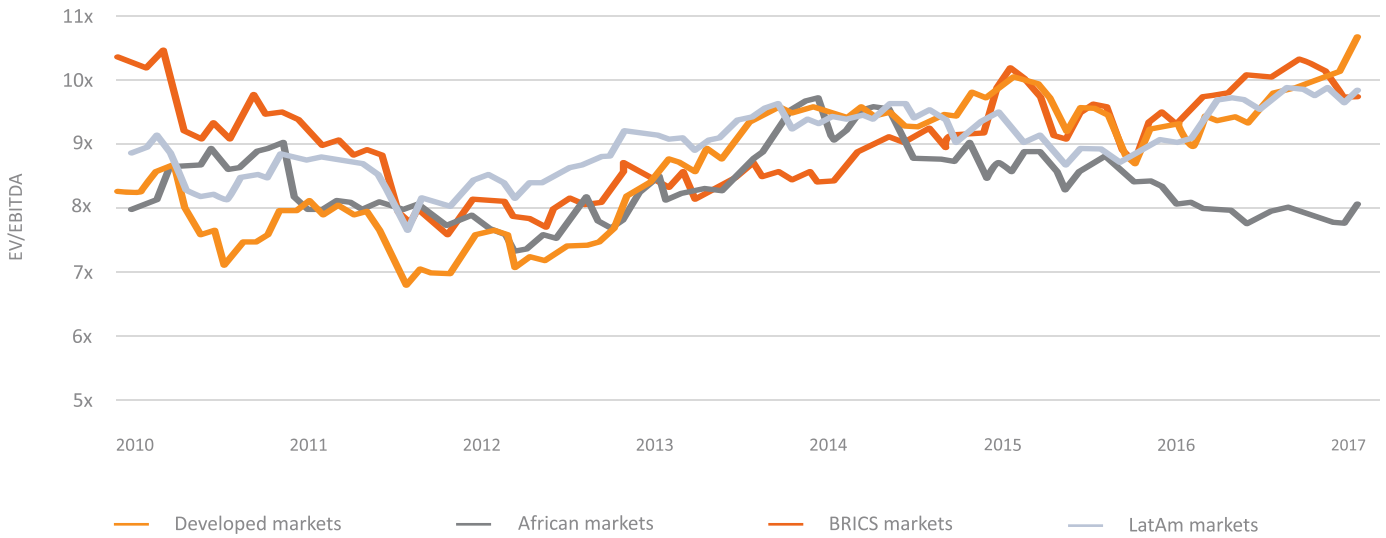
Multiples in Francophone West Africa (the BVRM) have shown significant volatility and reached exceptionally high levels over the past two years. This market consists of a small sample of stocks, most of which are based in Côte d'Ivoire. As an exceptional case, there seems to have been significant increases in share prices which is not equally supported by earnings growth. As this exchange is within the West African Monetary Zone, it is traded in CFA, a currency used in West and Central Africa, which is pegged to the Euro. One reason for this boost in the BRVM's performance could be that the use of the CFA has made the exchange a haven from the currency volatility plaguing other markets.

Overall, multiples in African markets ended 2016 trading from 5x to 11x EV/EBITDA, a wider range compared to at 2015.

The divergence of African multiples from the rest of the world in increasingly integrated markets suggests a correction may be coming.

AFRICA'S DIVERGENCE INCREASING

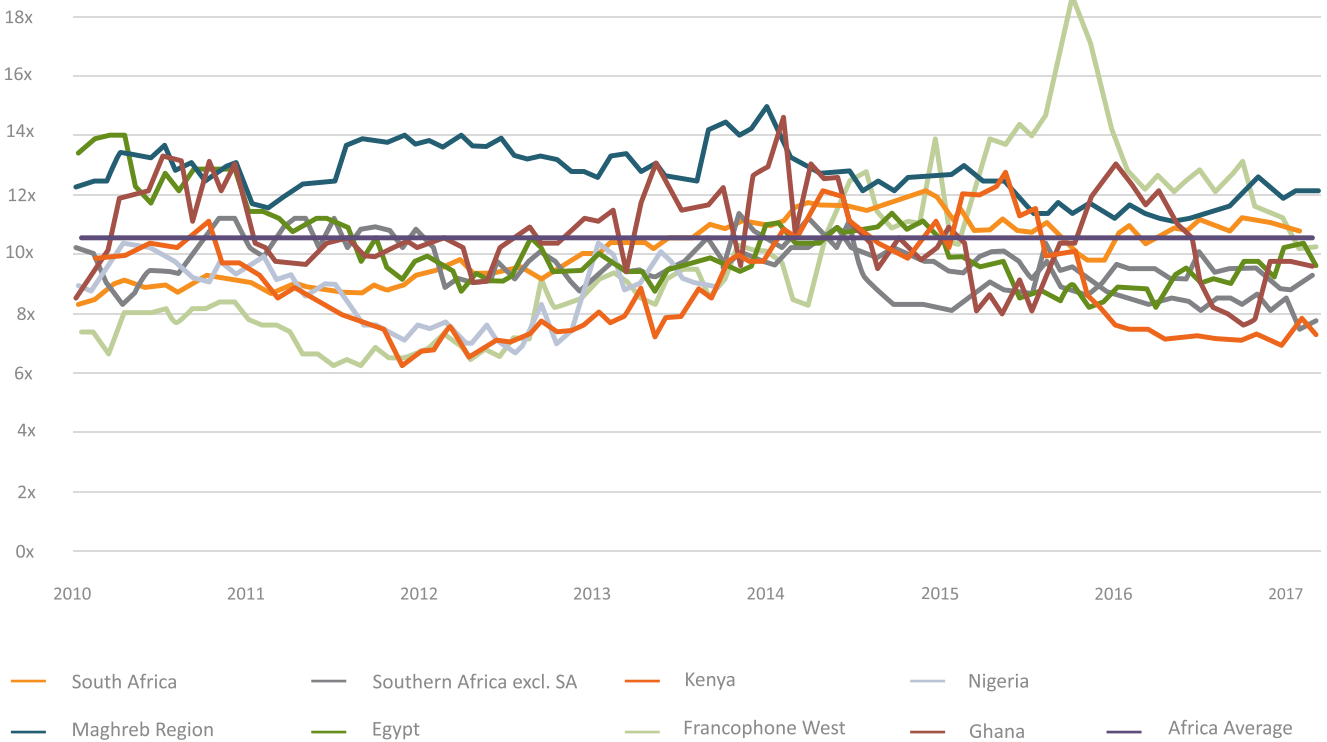
Listed EV/EBITDA multiples over time



Source: S&P Capital IQ, RisCura analysis

DOWNWARD TREND IN MULTIPLES ACROSS MOST MARKETS IN AFRICA

Listed EV/EBITDA multiples over time



Source: S&P Capital IQ, RisCura analysis

6. PRIVATE EQUITY MULTIPLES IN AFRICA

6.1 OVER TIME

Median EV/EBITDA multiples of listed equity in Africa have trended downward since the end of 2013. Conversely, median private equity multiples have steadily increased. There is a convergence of private equity and listed equity multiples at around 8x EV/EBITDA. A similar trend was observed after the GFC in the US, where a flight to quality resulted in deal pricing being higher, against expectation.

Between 2009 and 2013 over half of private equity transactions took place at lower than a 6x multiple. Private equity multiples have since grown to reach 7.8x at 2016. Over 30% of reported transactions in 2015 and 2016 took place at greater than a 10x multiple, while this was less than 20% of cases in earlier periods.

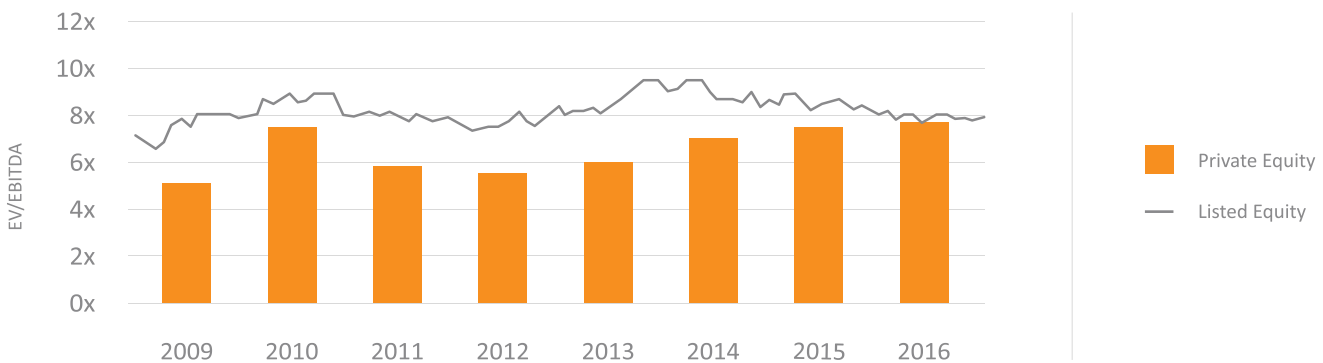
Of the African transactions with reported Enterprise Value, just over half of companies entered by private equity funds from 2009 to 2016 reflected a Net Debt position on their balance sheets. The average Debt/EBITDA position of these companies was 2.05x over the period, dropping to 1.79x if 2010 is excluded. The median Debt/EBITDA multiple was 2.14x at 2016, a slight increase compared to 2015, while Equity/EBITDA remained fairly unchanged.

The consistently low level of debt indicates that Africa’s private equity industry is still not debt driven, with poorly developed debt markets. Most fluctuation in multiples relates to investors’ availability and willingness to provide equity funding. Private equity firms can provide financing where obtaining affordable debt is not viable, as is the case across many African countries.

For the first time since 2009, the increase in multiples in the US was funded by equity rather than debt, with the norm being a relatively fixed margin being added onto the amount of debt that can be raised. However, debt remains more of a determinant of the multiples paid for private equity transactions in the US and the availability of debt within the US market remains a contributor to fluctuations in multiples.

LISTED AND PRIVATE EQUITY MULTIPLES CONVERGE

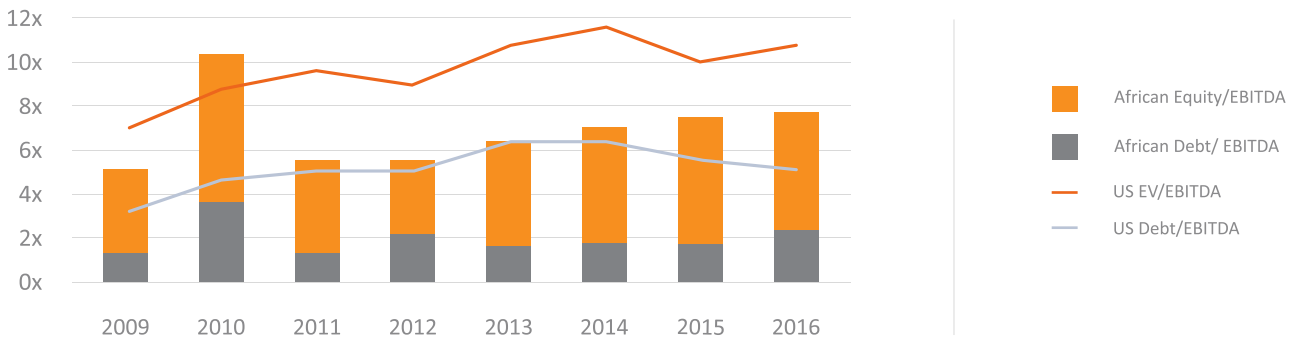
Median EV/EBITDA of listed and private equity transactions in Africa



Source: S&P Capital IQ, RisCura analysis

MARGINAL INCREASE IN DEBT LEVEL IN 2016

Median multiples of transactions with debt



Source: S&P Capital IQ, RisCura analysis

6.2 BY PRICE RANGE

Pre-2012 is characterised by smaller EV/EBITDA multiples, with 34% of transactions in Africa taking place in the 2.5x-5x bracket. Conversely, 74% of post-2012 transactions have taken place at above 5x.

While the trend is in line with global activity whereby most of post-2012 transactions are in the higher brackets, the proportion of transactions occurring in the 7.5x bracket is still substantially lower in Africa, illustrating that pricing remains lower in Africa than other markets.

The level of multiples varies due to many factors. High multiples could be due to high growth expectations for companies in which funds are invested, particularly where this growth is expected in the short-term. Alternatively, a higher perceived risk will result in a lower multiple. There is a constant trade-off between growth expectations and risk perception in Africa.

Also contributing to higher multiples is increased competition from strategic acquirers for attractive investment opportunities. With a substantial amount of dry powder in the market and an increased number of deals taking place via auction in recent years, it is no wonder that prices are being driven up for high quality deals.

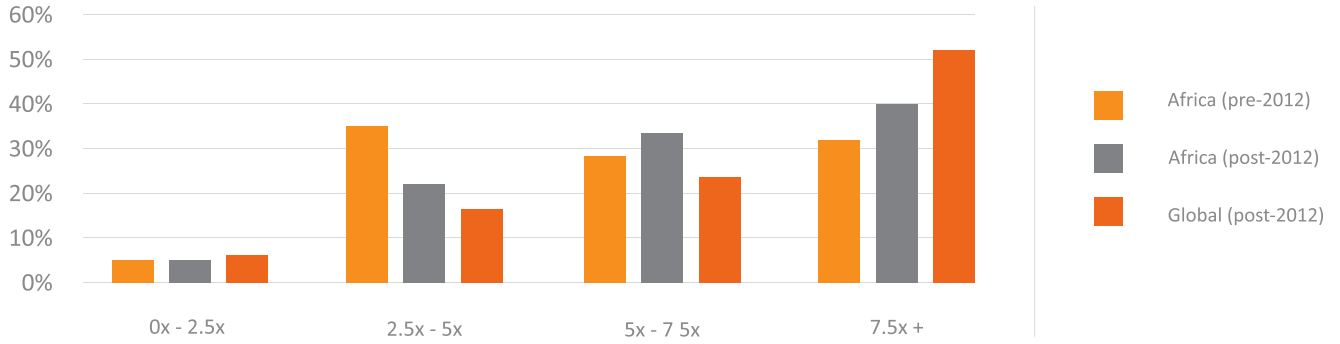
Rising prices and low leverage on deals may put downward pressure on future returns in the private equity space. Nonetheless, the upward trend in multiples continues to persist.

South Africa appears to have a more even spread across the various multiple sizes, whereas the remainder of Africa has a clear majority in the higher brackets.

According to the 2016 Deloitte SAVCA Africa Private Equity Confidence Survey, most respondents expect entry multiples on transactions in Southern and West Africa to decrease over the next 12 months. This is due to depressed economic growth forecasts weighing on investment decisions. Entry multiples in East Africa are expected to remain the same, despite increased interest from global and regional players. This would otherwise drive up multiples, however, funds are expected to follow a conservative approach due to pressure on global markets and high costs of debt.

POST-2012 MULTIPLES REMAIN ON THE HIGHER SIDE

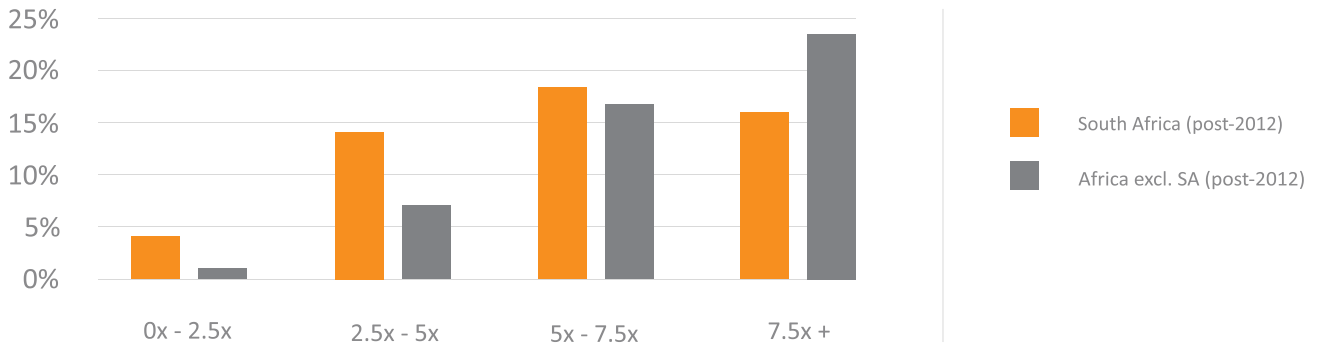
Count of EV/EBITDA multiples by price categories



Source: RisCura, S&P Capital IQ, Pitchbook

HIGHER MULTIPLES ACROSS THE REST OF AFRICA

Count of EV/EBITDA multiples by price categories (post-2012)



Source: RisCura, S&P Capital IQ

6.3 BY SIZE

There is a clear relationship between the transaction size and the EV/EBITDA multiple used to price the investment.

Higher priced transactions tend to take place at the larger end of the spectrum, in this case in the category of companies with Enterprise Value greater than USD 250m.

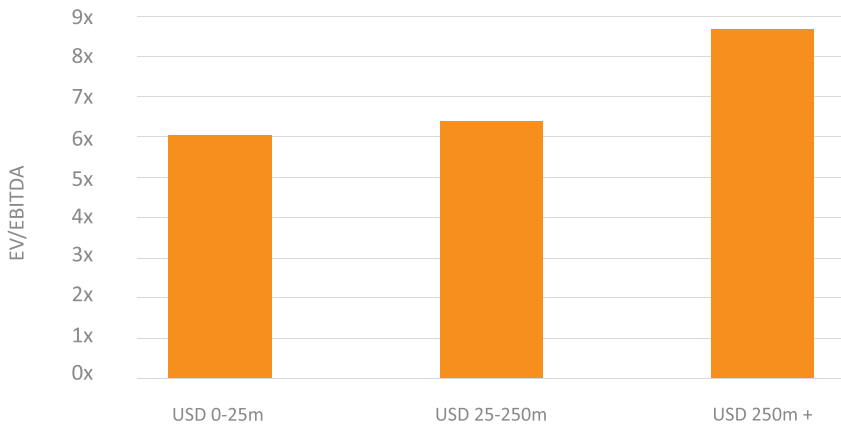
At an Enterprise Value of less than USD 250m, there is very little differentiation between the multiples of medium sized transactions and small transactions. The median multiple within both size buckets is around 6x. However, on the upper end of the spectrum, the very large transactions are attracting EV/EBITDA multiples of over 8x.

The size of investee companies is largely determined by the Fund’s investment approach. Funds may take a cautious approach by investing in later-stage companies with stable and sustainable cash flows, particularly during uncertain economic times, typically found in larger companies with entrenched market positions.

Investee companies that do have debt on their balance sheets have a relatively low median Debt: Equity level. The debt level remains flat and low, well below 1.8x Debt/EBITDA, at all company sizes. Compared to a global context, global Debt/EBITDA steadily increases the larger the company.

MULTIPLES INCREASE WITH SIZE

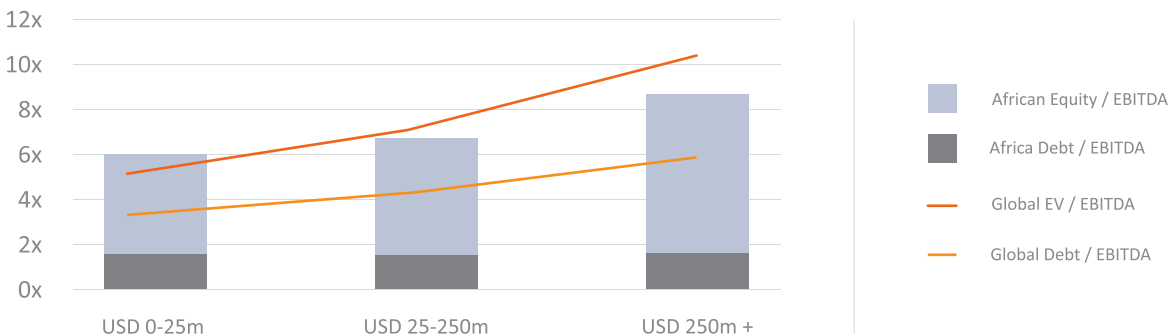
Median EBITDA multiples of private equity transactions (2012-present)



Source: RisCura, S&P Capital IQ

LEVERAGE DOESN'T INCREASE WITH SIZE IN AFRICA

Median EBITDA multiples by enterprise value (2012-present)



Source: RisCura, S&P Capital IQ, Pitchbook

6.4 BY SECTOR

While there is notable activity across most sectors in Africa, value is attained by understanding the fundamentals within the industry and within the context of the macroeconomic environment. As such, the range of multiples across sectors and company sizes is relatively small.

The highest multiples have historically been seen in the consumer discretionary and consumer staples sectors. These sectors remain an attractive area for investment in Africa due to the prevalent, growing middle class, favourable demographics and growing disposable income across many African countries. It is seen that a premium is paid by investors to secure lucrative deals in these sectors, considering fierce competition among private equity houses. Also contributing to high multiples is high growth expectations and a decreased perception of risk relating to companies in the consumer sectors.

Healthcare has recently attracted high multiples. Demand for quality healthcare has increased across the continent, because of a growing population and rising disposable income.

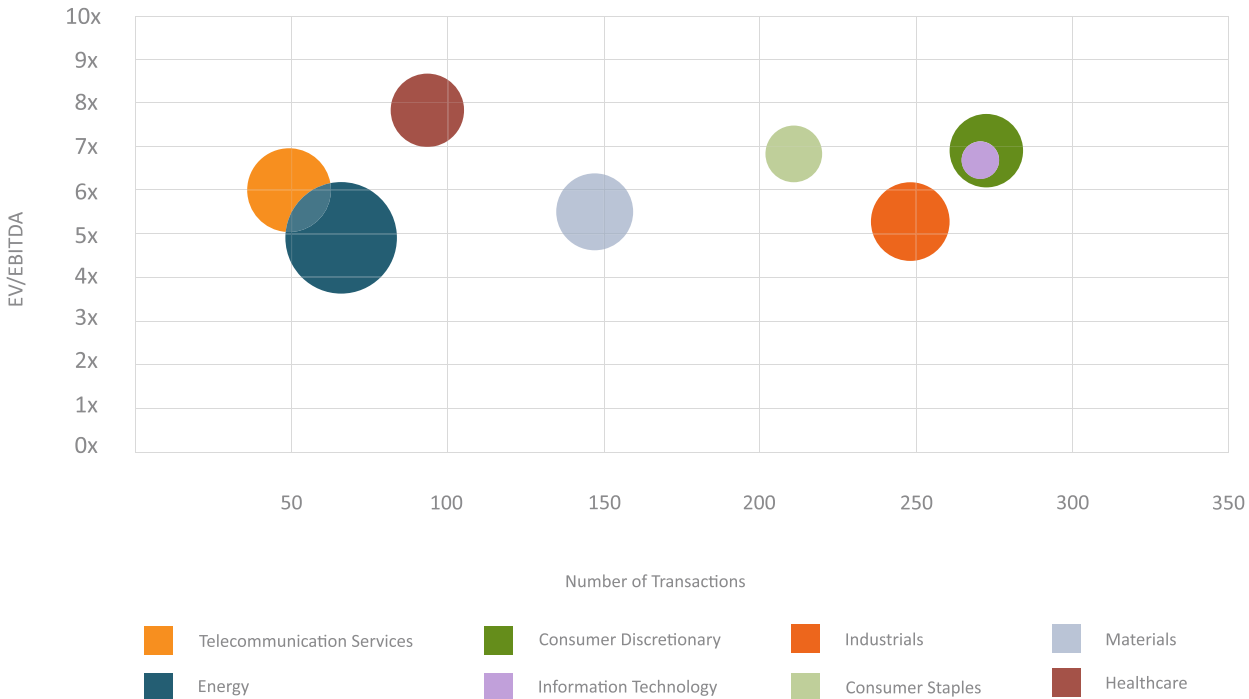
The number and size of deals in the energy sector have increased significantly since 2015. Although not fetching the highest multiple, the average company size is considerably large. The highly regulated nature and cyclical nature of this industry could be factors keeping prices lower.

Industrials remains another popular sector for investment, including the construction, engineering, transport, logistics, equipment and machinery industries. Investment is mostly in the light industrial sector with a focus on import substitution.

The information technology sector is characterised by smaller, earlier-stage companies. Yet, over 2016 this sector has experienced one of the largest increases in transaction activity and has realised deals at relatively high multiples. This supports the increasing adoption of tech in Africa, particularly in South Africa, Nigeria and Kenya.

RANGE OF MULTIPLES ACROSS SECTORS IS SMALL

Deal multiples by sector (2006-2016)



Source: RisCura, S&P Capital IQ

Note: The size of the bubble represents the average size of the company (Enterprise Value) within each sector.

6.5 COST OF EQUITY

Risk versus reward is the key determinant of investment activity. Cost of equity is representative of the investor’s evaluation of the risk that the enterprise is exposed to. Elevated cost of equity and limited availability of capital created headwinds for many African countries during 2016. In the current year, this appears to be easing, with currency risk declining and equity risk premiums lowering on the back of more positive sentiment towards many markets.

Since 2015, the three large increases in cost of equity were experienced in Egypt (6.5%), Mozambique (3.2%) and Nigeria (6.4%). As can be expected, these are on the back of significant currency depreciation. For Mozambique and Nigeria, this is due to the decrease in the export value of commodities. More recently, the high inflation caused by the depreciation of the currency is starting to taper off and the balance of payments is improving.

The largest decreases in cost of equity have been in Ghana (-7.11%), Ivory Coast (-3.2%) and Tanzania (-2.33%). These countries are expected to see improved economic growth because of lower energy prices, improving trade, falling inflation and decreased political risk.

Oposing effects of the fall in global oil prices are on oil exporting countries such as Angola (2.08%) and Nigeria (6.4%) and oil importing countries such as Kenya (-2.02%), Morocco (-1.34%) and South Africa (-0.58%).

MAJOR CHANGES IN COST OF EQUITY

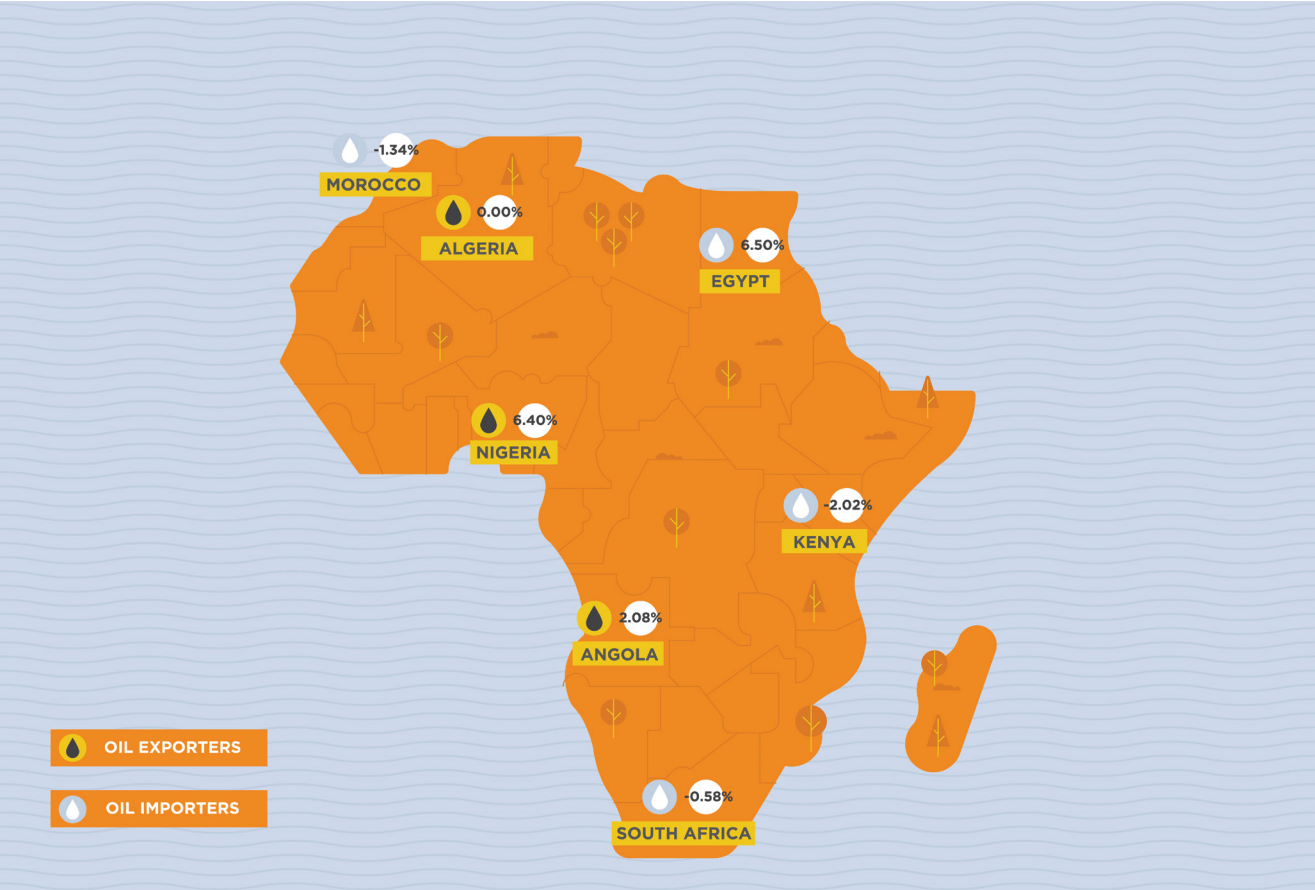
June 2015 - March 2017



Source: RisCura, Moody's, BMI Research

MAJOR CHANGES IN COST OF EQUITY

June 2015 - March 2017



Source: RisCura, Moody's, BMI Research

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