

# Bright Africa 2020

## Private Equity In Africa

### **How does Africa fare in tough times?**

This research aims to highlight the current state of the private equity market in Africa and trends in prices paid for private equity assets over time.



## Foreword

Since its inception in 2013, Bright Africa has taken various forms depending, in part, on the availability of meaningful data in any given year. Overall, the intention has been to set the scene for investment into Africa, primarily by institutional investors, by looking at the drivers and enablers of investments, and the challenges and changes apparent in the current investment landscape. It is an ongoing research endeavour presented by RisCura together with external resources and data, and showcases our unique, on the ground perspective.

The economic, health and social disruptions caused by the COVID-19 pandemic have been far-reaching and have naturally impacted the investment scene. There is much to consider and no doubt there will be even more when further data becomes available. The pandemic has also accelerated what was already a fast-changing environment, where information can quickly become out of date. To avoid this, as well as the information becoming too much to digest, we have decided to break the research into discrete reports to be released over the next few months. These will cover:

- Private Equity
- Pension Funds
- Listed Equity
- Sovereign Bonds
- Real Estate

We launch Bright Africa this year with our perspectives on and analysis of private equity markets in Africa, looking at fund raising, deal activity and pricing. We hope you find it of value.

### About Bright Africa

Bright Africa was first launched in 2013 and is RisCura's research resource that seeks to answer investors' questions by providing insight into Africa.

### About RisCura

RisCura is a purpose-driven global investment firm that offers investors unique insights and guidance to help shape the future world we all want to live in whilst still achieving and exceeding financial goals for its clients.

RisCura is known for its leading focus on liability-driven investing, responsible investment practices, investment transparency, reliable valuations, independent risk assessments, world-class performance standards and excellent returns, which has brought about a major systemic shift in the African investment landscape. Through constantly exploring new ways to invest with care and meet the needs of clients, RisCura finds unique investment opportunities for its clients.

Today RisCura advises clients with combined assets of more than \$150bn. The company strives to steer global capital towards investments that benefit society and the planet in the long run.

RisCura has won numerous industry awards. The firm has a big Africa-focus: with a footprint in South Africa, United Kingdom, China, Hong Kong, Botswana, Kenya, Mauritius, Namibia, Nigeria, Zambia and Ireland.

For more information about its investment services and approach, visit the RisCura website: <https://www.riscura.com>

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## Introduction

The latest Bright Africa Private Equity research aims to highlight the current state of the private equity market in Africa, including South Africa, and trends in prices paid for private equity assets over time.

Globally, investor interest in private equity investing has been increasing. According to the 2020 McKinsey Global Private Assets Review, private market assets under management (including venture capital and private equity) have grown by USD 4trillion over the past decade, an increase of 170%, and the number of active private equity firms has more than doubled. Over the same period, global public assets under management grew by roughly 100%.

In Africa ex. SA, interest in private equity assets has always been robust given the challenges of investing in many public markets. These include lack of liquidity, high brokerage fees and limited trading hours on some bourses. In South Africa, which has sophisticated public markets, increased interest in private equity has been driven in part by poor listed equity returns over the past five years.

In determining the current state of African private equity, we investigated the supply and demand for capital as indicated by fundraising for private equity funds and deal-making activity, revealing some interesting changes in the current year. In the private equity market, the level of fundraising for private equity funds and the level of activity from other buyers in the private markets, determine the supply of capital.

We have also looked at the perception of risk and returns compared to listed equity, and how perceptions have changed. To shed some light on this, we looked at the theoretical cost of equity, which reflects the perceived risk of the different markets. The dramatic impact of COVID-19 resulted in significant increases in perceived risk, wiping out gains shown by many African countries before the pandemic.

After examining all of these factors, which influence pricing, we then examined trends in both South Africa and Africa (ex. SA), where a significant difference between these markets – driven by notable differences in capital markets and the perception of risk and returns – can be observed.

# 1. Private Equity Fundraising over time

Before the significant market contraction in early 2020, private equity fundraising activity across Africa continued to show strong growth in the 2019 calendar year. The total value of PE fundraising in 2019 reached USD 3.8bn, up from USD 2.7bn in 2018, and the second-highest year of fundraising since 2010.

Pitchbook's 2019 Annual US PE Breakdown report noted a similar spike in fundraising in the US, where an all-time high of USD 301.3bn in 2019 was achieved, up 52% from the prior year.

The final closes of large Emerging Markets and Pan-African funds, such as Actis' Emerging Markets Focused Fund & Actis Long Life Infrastructure Fund, which closed at USD 1.2bn contributed to the increase. Other larger funds include Amethis' Pan-Africa Fund & Amethis Fund II, which closed at EUR 375m.

**However, funds raised specifically for investment in South Africa, per the SAVCA 2020 Private Equity Industry Survey, fell approximately 48% from ZAR 7.1bn in 2018 to ZAR 3.7bn in 2019.**

This stands in stark contrast to the highs reached in 2019 and illustrates the impact of the uncertainty and economic distress caused by the COVID-19 pandemic. International lockdowns resulted in trade disruption and massive decreases in economic activity, combined with downgrades, currency devaluations, and revised investment sentiment towards Africa adversely affected fundraising initiatives and is likely to continue doing so for the foreseeable future.

Recent benchmark interest rate cuts coupled with the resilience of private equity compared to other asset classes are potential silver linings to cushion the impact of these events.

## 1.1 By region

The regional split and the investment themes of funds raised indicates that the market still favours generalist funds with a wide regional mandate. This may be due to Africa's economies remaining largely informal and fragmented. According to the IMF, the informal sector makes up from 20% to 25% of GDP on the lower end, in Mauritius, South Africa, and Namibia, up to a high of 50% to 65% in Benin, Tanzania, and Nigeria. Along with small, fragmented, and poorly connected markets and a high cost of compliance, these factors limit the number of investable opportunities available to investors. This limitation necessitates a wider mandate to ensure sufficient opportunities with a desirable risk and return profile that can be identified and evaluated.

## Fundraising from 2010 to 2020

Region focus in USDbn



\*2020 relates to the six-month period ended 30 June 2020

Source: AVCA, RisCura analysis

## 1.2 By sector

Another trend observable from the breakdown of fundraising in investment themes is the high proportion of funding raised for infrastructure themes. When infrastructure and energy are combined, the result represents almost half of all funds raised. Of the total USD 3.8bn PE fundraising closed in 2019, USD 1.6bn is focused explicitly on the infrastructure and energy sector, a 24% increase when compared to the fundraising closed in 2018.

This reflects the high level of interest in infrastructure as an investment theme and the growing realisation that Africa cannot fund its infrastructure gap through government balance sheets but requires significant private sector investment.

The AfDB estimates around USD 130-170bn is needed annually in Africa to spend on its infrastructure and energy needs, with most allocated to maintenance and rehabilitation of existing infrastructure that has become outdated and inefficient. With South Africa, one of the continent's largest economies, announcing an infrastructure-led recovery plan from the pandemic even more activity is expected in this sector.

## Fundraising from 2010 to 2020

Sector focus in USDbn



\*2020 relates to the six-month period ended 30 June 2020

Source: AVCA, RisCura analysis

## 2. Private Equity investment activity over time

Fundraising represents the supply of capital available from private equity funds for investment. The extent to which an equal supply of investable opportunities exists is not directly observable. However, the level of deal activity and the prices at which investors make such investments are measurable.

**Total private equity transaction activity has steadily increased over the last two years – by 20% from June 2018 to June 2019 and by 8% from June 2019 to June 2020 – as fund managers continued to deploy the significant amount of capital created in the market during earlier fundraising years.**

### 2.1 By region

South Africa and Kenya have both experienced decreases in investment activity of late. While South Africa historically has made up a large proportion of PE transaction activity, its contribution has reduced significantly from 49% as at June 2010 to 26% as at June 2020. Over the past three years, its share of transaction activity has settled into a relatively consistent average of 27%, despite the country's limited growth prospects and increasing risk profile.

Kenya accounted for 52% of East Africa's investment activity for the period ended June 2020, a decrease from a 59% share as of June 2019. However, the country continues to dominate the region's PE investment landscape because of its large and diversified economy, pro-business government policies, and relatively low dependence on extractive commodities.

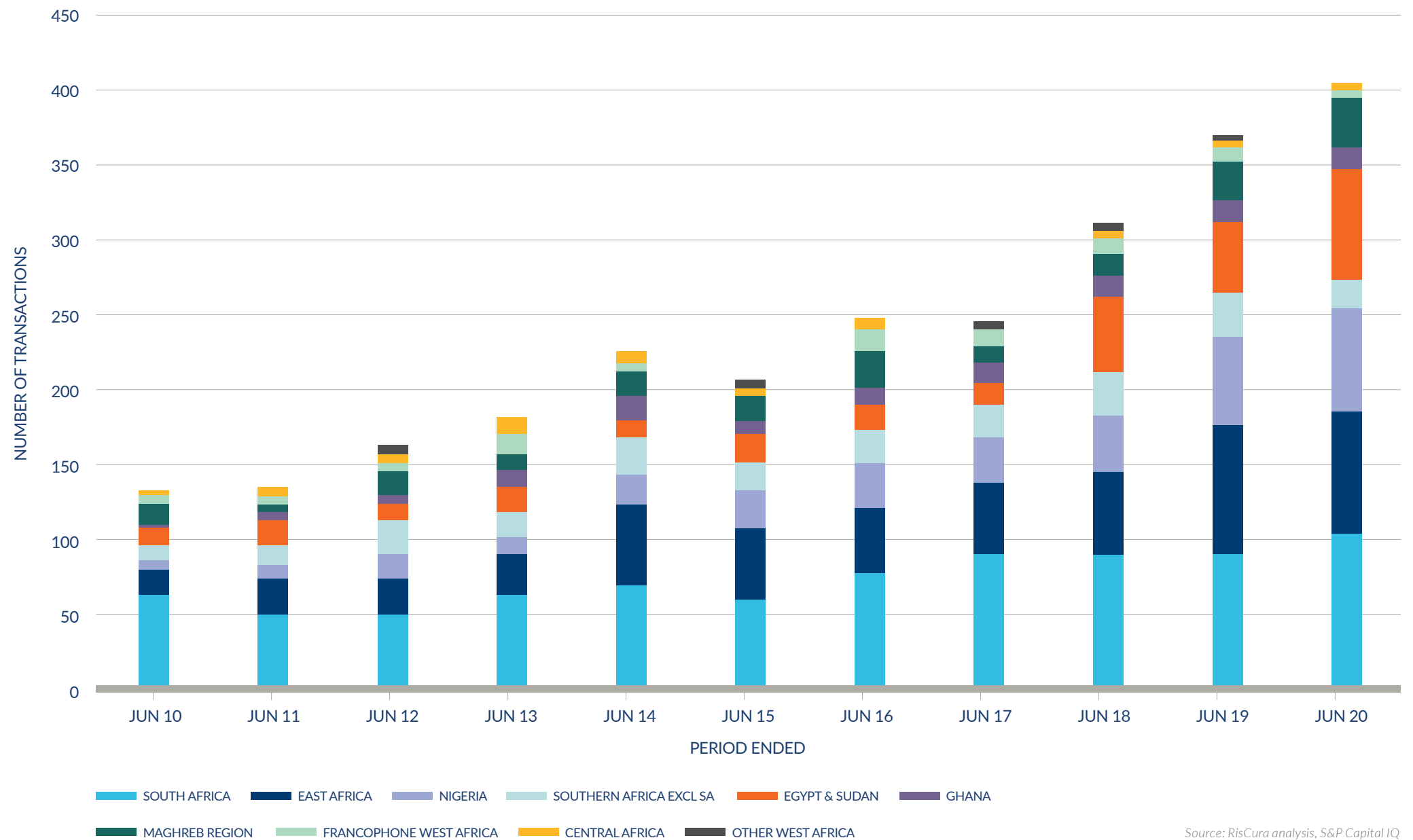
As a continuation of the trend in 2018, there was a significant uptick of 63% in deal activity in Egypt from 2019. In 2020 Egypt maintains its ranking in RMB's *Where to Invest in Africa* report as the number one investment destination in Africa. Egypt has a large and diversified economy; and an improved business environment stemming from recent investment-related legal reforms that have resulted in improved investor sentiment. The improvement in Egypt's business environment is evident in the country's eight-place jump in the World Bank's Ease of Doing Business rankings.

Deal activity in Nigeria increased moderately by 13% for the period ended June 2020, compared to the 50% increase experienced for the period ended June 2019. The largest economy in Africa, in nominal terms, accounted for 17% of total transaction activity in 2020, marginally up from 16% in 2019. The increase in activity in Nigeria is driven by improved investor sentiment, which results from large consumer demand, government incentives, and improved foreign exchange liquidity.

However, following the oil price collapse because of the pandemic, Nigeria's outlook has altered considerably. As a result of social distancing measures disrupting consumer activity, coupled with a significant fall in oil prices and production cuts, Fitch Solutions expects that the Nigerian economy will remain below pre-COVID-19 levels until 2022. Unless major new investment arises, Fitch Solutions expects oil production to remain structurally below levels seen in previous years, which will weigh heavily on exports, fiscal revenues, and public investment, resulting in constrained growth.

### Activity continues to trend upward

Number of private equity transactions by region



Source: RisCura analysis, S&P Capital IQ

\*The definition of PE when looking at the number of transactions taking place includes transactions in venture capital, limited real estate transactions reported by private equity funds and the private equity sector.

## 2.2 By sector

Investment activity in consumer discretionary has increased from 14% of total transactions as of June 2019 to 18% as at June 2020, and investment activity in consumer staples has grown by 20% in absolute terms for the period ended June 2020.

Consumer products have historically been the focus of private equity in Africa, due to the perceived opportunities resulting from the continent's growing middle-class. Within consumer discretionary, investor interest has moved towards internet and direct marketing retail, education and communication services, and publishing; possibly showing a shift from focusing on a broader target market with lower income to targeting a smaller market, but with a higher income.

Internet and direct marketing retail companies are classified within the consumer discretionary sector, and this subsector has enjoyed a growth of 45%. Given recent events because of the global pandemic, the shift to online retail may be accelerated. E-commerce in many parts of the world is likely to be revolutionised and could present substantial opportunities. Africa's large and growing young population is expected to continue to drive demand for online retail and services. According to the United Nations Conference on Trade and Development's Business-to-Consumer's e-commerce index of 2019, Mauritius, South Africa, and Nigeria are the top three most prepared African economies to support online retail.

Despite the positive drivers for online retail and services, several factors limit e-commerce's expansion throughout the continent. These include high costs of broadband, low bank card penetration, and limited e-commerce payment options. Ironically, these factors present opportunities to invest in innovative infrastructure solutions that enable e-commerce in Africa.

However, investment activity in the IT sector (ex-internet and direct marketing retail companies) experienced a muted growth of 2% from June 2019 to June 2020. Investment in this sector in Africa mostly consists of internet software and services, application software, data processing and outsourced service companies. South Africa, Nigeria, Egypt, and Kenya attract the highest level of investment into the IT sector on the continent.

According to *Bain & Company's Global Private Equity 2020* report, technology companies in general, and software companies in particular, outpace other industries when it comes to generating value through EBITDA growth. As such, competition for deals will continue to rise as capital aimed at the sector grows. Globally, several large tech specialists raised significant new funds in late 2018 and 2019, including Vista's USD 16bn Fund VII and Thoma Bravo's USD 12.6bn Fund XIII. Other large firms have launched specialist tech funds, including Advent and Bain Capital (Bain & Company, 2020).

The other two traditionally large sectors for investment, financials and industrials, have attracted similar levels of investment in the current year when compared to the prior year. Industrials includes the construction, engineering, transport, logistics, equipment, and machinery industries. Investment is mostly in the light industrial sector with a focus on import substitution. The two

above-mentioned sectors have contributed a total of 10% and 14% of the total investment activity as of June 2020, respectively.

According to *Deloitte's Private Equity and the post-COVID-19 economic recovery in sub-Saharan Africa 2020* report, in West Africa, opportunities are expected for investment into resilient sectors such as fintech (including mobile money and e-commerce), healthcare and healthcare-related support, as well as Fast Moving Consumer Goods (FMCG) in Nigeria.

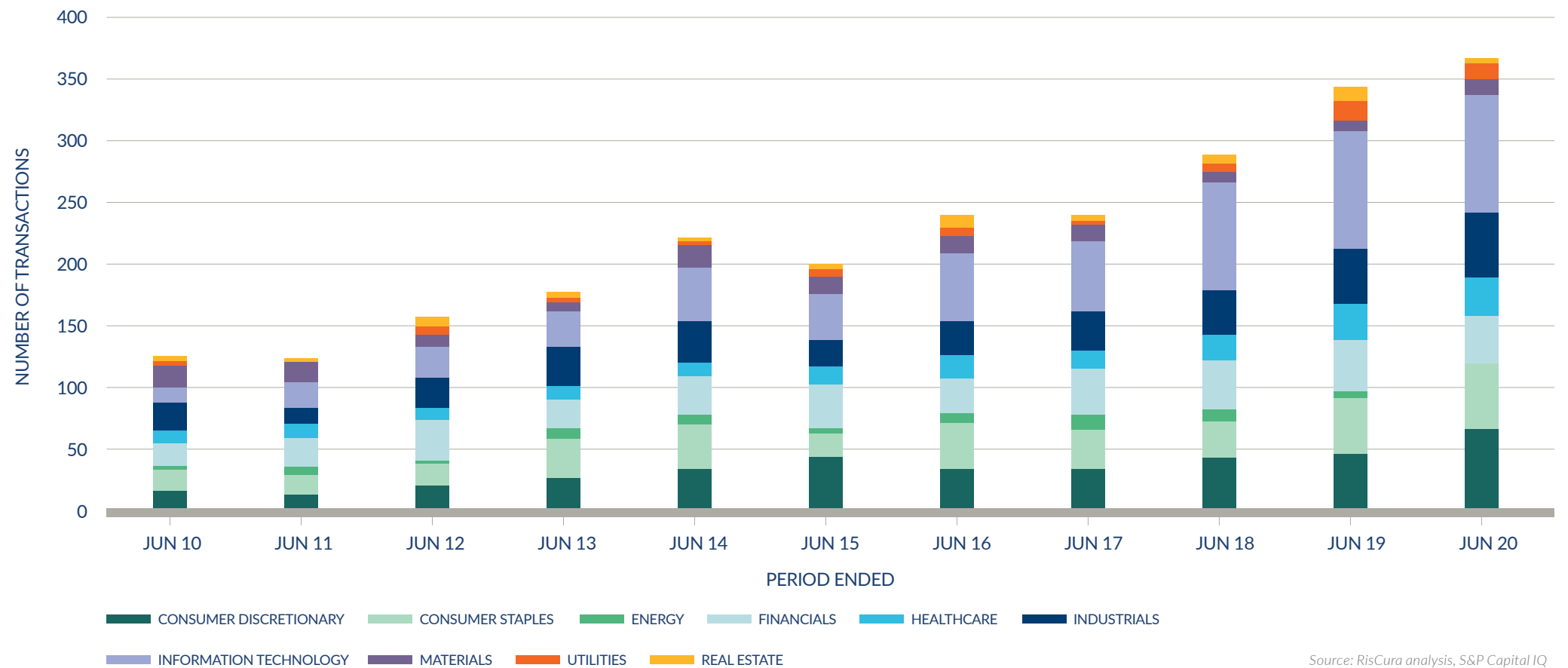
The report further highlights the renewed policy focus on regional agriculture and agri-processing production and trade. An opportunity arises to break the reliance on food imports from outside of the continent and to become more self-sufficient in food production at a regional level – shortening supply chains and boosting intra-regional trade. Although the private equity

industry rarely invests in primary agriculture, agri-processing and logistics could offer significant investment opportunities. From the 2019 to the 2020 period, investment across all major African regions in agricultural-related industries has doubled.

In recent survey responses from private equity practitioners across East, Southern and West Africa, participants indicated a focus on investments in manufacturing, food and beverages, agriculture, and financial services over the next 12 months. Although the survey was conducted before the onset of COVID-19, these industries are still expected to play a vital role in the continent's economic recovery, particularly in light of disruptions of supply chains globally and a greater emphasis on local and Africa-based production and trade (Deloitte, 2020).

## Information Technology in demand

Number of PE transactions by sector



Source: RisCura analysis, S&P Capital IQ

### 3. Cost of Equity (COE)

#### 3.1 Changes in perceived risk and reward

Along with changes in the supply of capital and investable opportunities, another factor that influences the prices at which assets change hands is the perceived risk and rewards of a particular investment. Cost of equity (COE) represents investors' estimate of a fair rate of return required for an investment based on the risk. To estimate the changes in the risk exposure perceived by investors, we have estimated an average cost of equity for each market.

Most countries showed a decrease in the cost of equity from December 2018 to December 2019. Most notable is Egypt's 3.35% decline, which can be attributed to reduced investment risk as Moody's upgraded the country's long-term foreign and local currency issuer ratings from B3 to B2. Moody's decision stems from the expectation that the ongoing Egyptian fiscal and economic reforms will steadily support real GDP growth. Moody's expects that the maintained primary budget surpluses, combined with strong nominal GDP growth will reduce the country's vulnerability to financing shocks.

*Since the 2019 upgrade in rating, the COVID-19 pandemic has exposed the Egyptian government's large funding requirements and weak ability to afford debt because of its high interest bill.*

However, in May 2020 the rating agency affirmed the country's rating with a stable outlook on the back of a track record of economic and fiscal reform implementation and Egypt's demonstrated capacity to manage significant shocks, which reduce the likelihood of a global financial market disruption severely affecting the country.

South Africa experienced an increase in COE levels from December 2018 to March 2020, which is mostly attributable to the deterioration of the country's fiscal strength and structurally low growth. Moody's argues that South Africa's debt burden will rise over the next five years under any plausible economic and fiscal scenario and that further downgrades are possible if poor growth, high fiscal deficit, and rising financing costs persist.

From December 2019 to March 2020, an increase in the COE was experienced in all countries. These increases include significant markets such as Ghana, Kenya, and Nigeria, where COE increased by 2.96%, 2.34%, and 2.59%, respectively. This COE increase is attributable to a universal increase in risk due to the global impact of COVID-19.

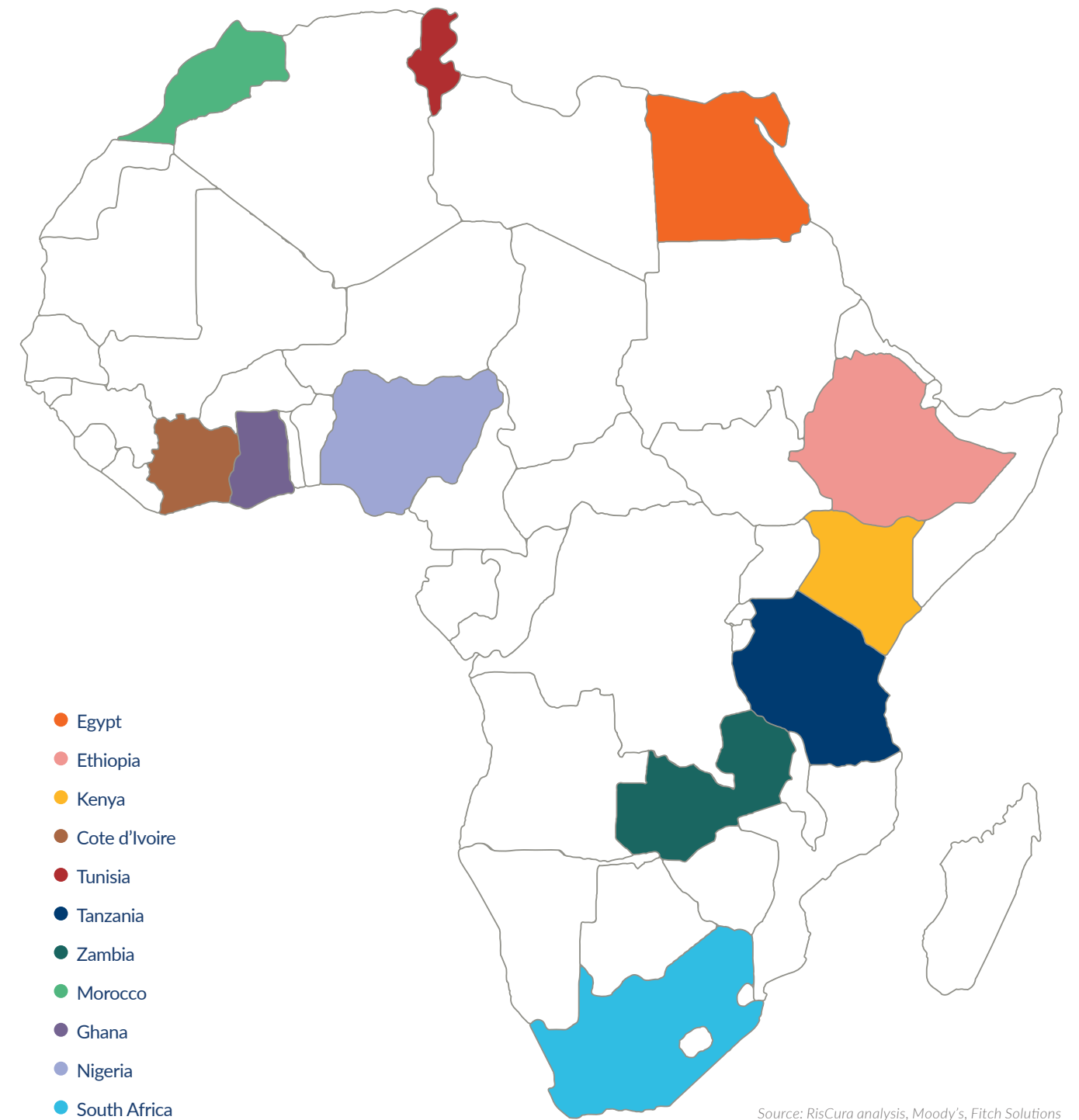
Several African economies are very dependent on the export of commodities. For example, Nigeria, a large investment market, is highly dependent on the export of oil. The collapse in international crude prices following the pandemic caused massive shockwaves throughout these economies. The heightened fiscal risks and uncertainties stemming from the disruption have also contributed to the increase in COE levels.

#### Change in Cost of Equity over time

CHANGE IN COE



REAL GDP GROWTH



Source: RisCura analysis, Moody's, Fitch Solutions

Ghana and Nigeria have had larger increases than Egypt and South Africa, which experienced COE increases of 1.08% and 0.74%, respectively. Egypt and South Africa are the only African countries that are classified as emerging markets and are therefore considered to have far more robust capital markets, possibly resulting in smaller increases in COE levels. Another factor contributing to the lower movement in the Egyptian COE level is the country's decline in currency risk. According to Fitch Solutions, Egypt's long-term inflation has been revised downwards as price growth is expected to moderate as inflationary pressure stabilises. As such, Fitch Solutions expects inflation to average 5.7% over the coming decade, compared to a peak of 29.6% in 2017 and 9.4% in 2019.

The worsening macroeconomic environment has driven a significant increase in COE levels in Zambia. The Zambian economy has been plagued by weak governance, policy uncertainty, and an undiversified trade portfolio that is heavily dependent on commodity exports. Moody's and Fitch have both downgraded Zambia's long-term foreign-currency bonds, citing grave concerns regarding the country's ability to meet debt obligations.

From March 2020 to June 2020, COE has reduced for most markets under review, except for Ethiopia. The overall movement in COE from December 2019 to June 2020 for Ethiopia can be mainly attributed to a change in its currency risk. According to Fitch Solutions, the Ethiopian monetary policy is considered uncoordinated as the National Bank of Ethiopia has elected to increase the money supply in a relatively high inflationary environment to boost public investment. Along with imported price pressure, this increase in money supply is expected to drive Ethiopia's inflation to an average 12% per year between 2020 and 2029.

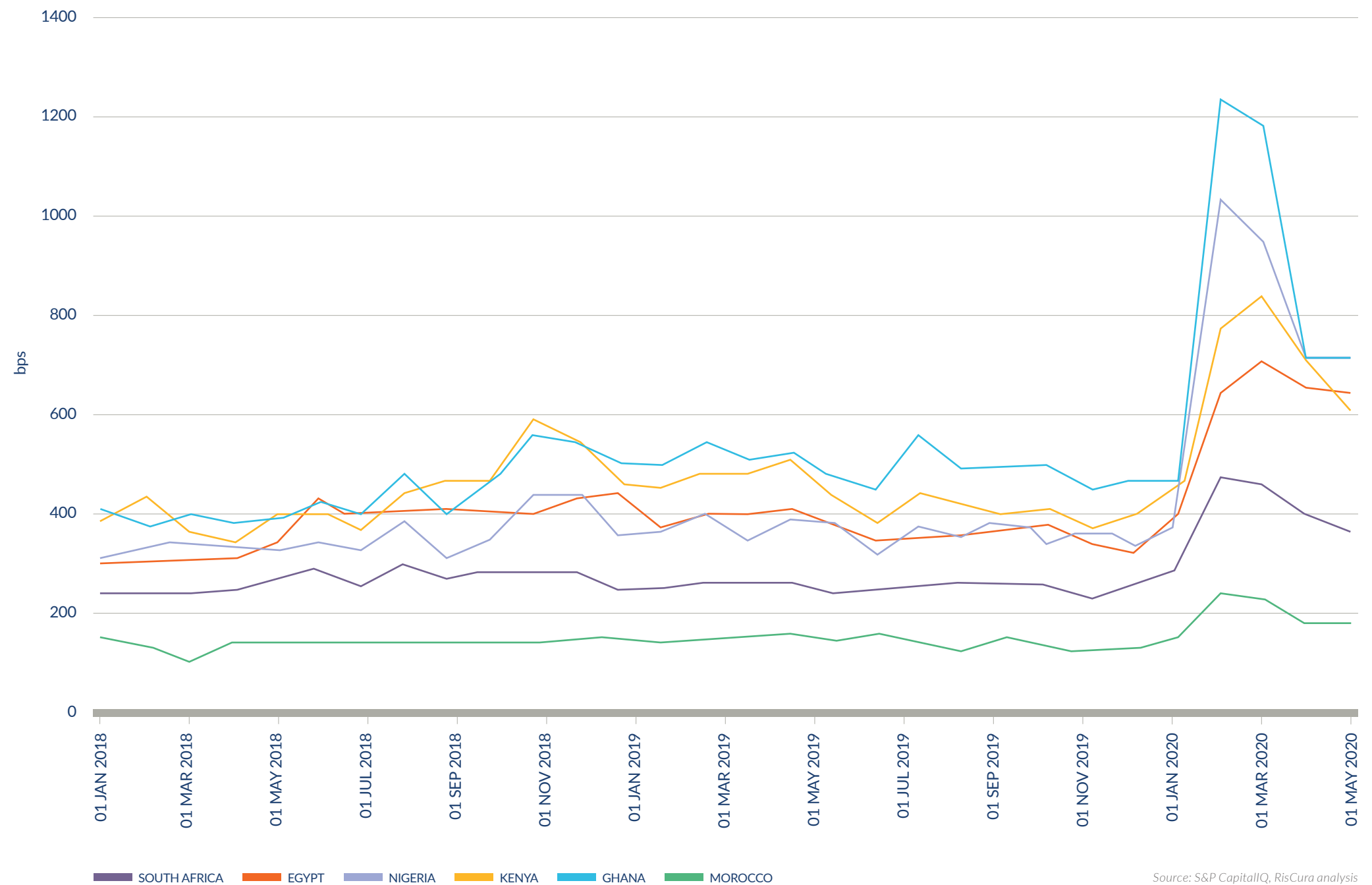
The sovereign credit default spread is a quantitative measure of each country's sovereign risk. This measure is used to calculate the COE of each country. The graph, "Credit default spreads from Jan 2018 - Jun 2020", illustrates how the credit default spreads have changed from January 2018 to June 2020 for a selected group of African countries.

Overall, we have seen a sharp increase in sovereign credit default spreads from December 2019 to March 2020. This is mostly attributable to the global risk-off environment ignited by the devastating economic impact of COVID-19, with investors moving away from riskier emerging and frontier markets towards safer, more developed markets. As African markets are classified either as frontier or emerging markets; this impact was heavily felt on the continent.

Movements in credit default spreads from December 2019 to March 2020 for countries such as Nigeria and Ghana were far more significant than for other African countries. This may have been caused by the additional risk of commodity dependence in these economies. The movement in credit default spreads from March 2020 to June 2020 represents the stabilisation of markets as global economies recovered from initial lows, as well as the impact of world-wide quantitative easing.

## A rise in country risk following the pandemic

Credit default spreads from Jan 2018 - Jun 2020



Source: S&P CapitalIQ, RisCura analysis

## 4. Private Equity pricing in Africa

Many of the drivers of price changes are unobservable, so it is often difficult to interpret changes over time. However, the same factors that influence any investment's price also influence private equity market prices, as noted in this research's introduction.

### 4.1. Over time versus listed equity

#### Africa ex. South Africa

The median EV/EBITDA multiples of listed equity across Africa ex. SA have trended downwards since the end of 2014. Conversely, median private equity EV/EBITDA multiples across Africa ex. SA have steadily increased since June 2012. Changes in growth expectations and perceived risk do not appear to adequately explain this price increase. Growth prospects are currently muted when compared to earlier in the decade, and although there has been some decrease in risk in specific countries over this period, it does not appear to have driven the price increase.

For the last two years ended June 2019 and June 2020, private equity multiples have exceeded those of listed multiples. Although this appears counter-intuitive as a result of the liquidity discount that should apply to prices in the private markets, the lack of liquidity in many African listed markets, the high cost of compliance, and the resultant lack of capital available to these markets complicate a direct comparison.

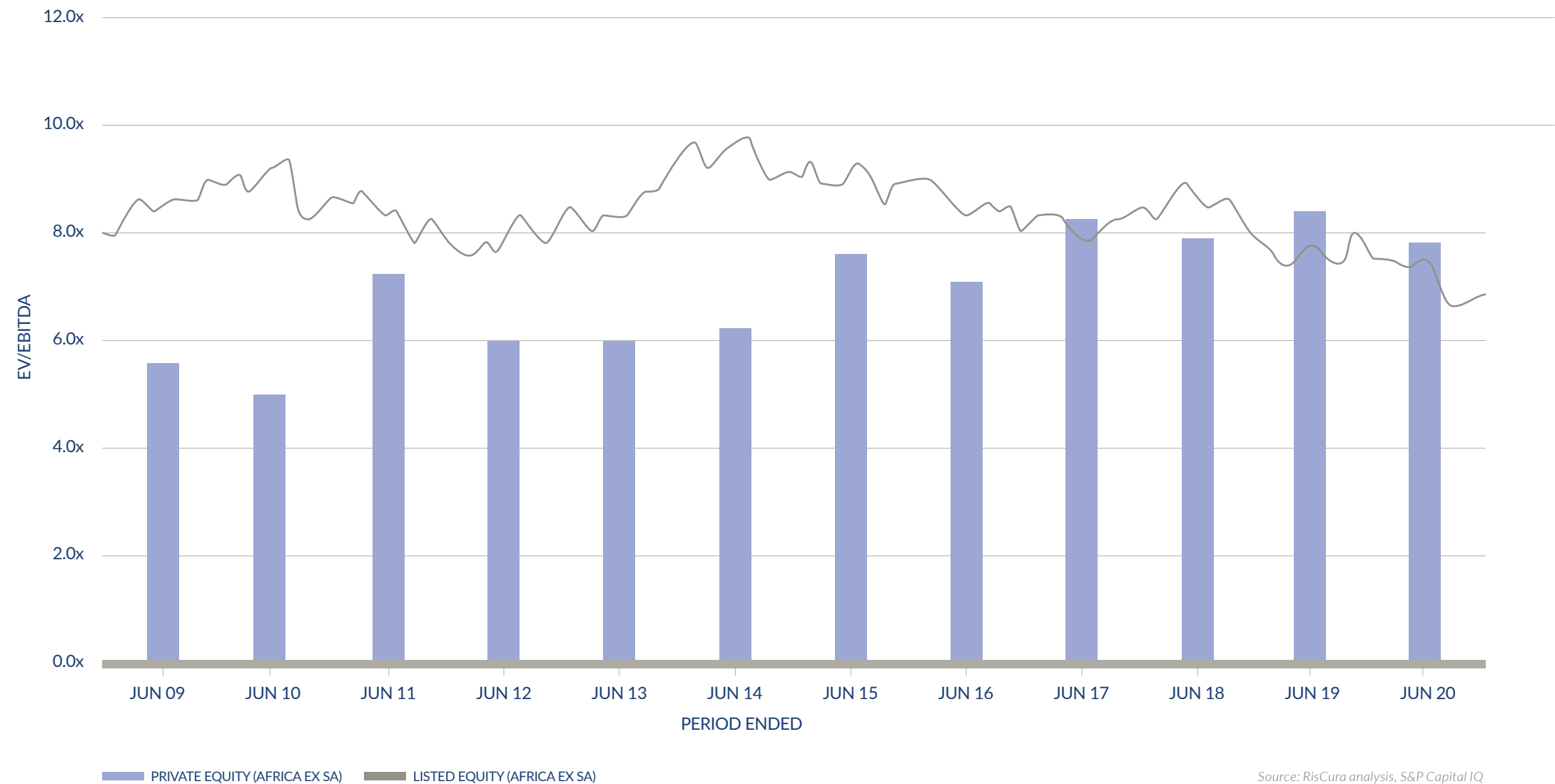
*During the year ended June 2019, multiples increased by 6.5%, in line with lower risk perceptions and the large supply of capital available for investment. For the year ended June 2020, the impact of the pandemic is partially reflected by a decrease of 7.3% in multiples.*

The muted decrease in pricing, despite the large increase in perceived risk and reduction in growth outlook, could be driven by competition from strategic and financial acquirers for attractive investment opportunities. With an increase in the number of deals taking place via auction in recent years, prices are likely to remain high.

A final factor to consider is that the number of large, established companies in Africa is limited, as previously discussed. As a result, private equity on the continent has more of an early-stage growth equity approach, often investing in investment in smaller, earlier-stage companies with higher risk, but also higher growth expectations. With earnings still growing rapidly in the early stages of operations, multiples calculated using historical earnings are often high. Rising prices and low leverage on deals across Africa ex. SA may put downward pressure on future returns in the private equity space.

### Africa ex. SA private equity prices on the rise

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



Source: RisCura analysis, S&P Capital IQ

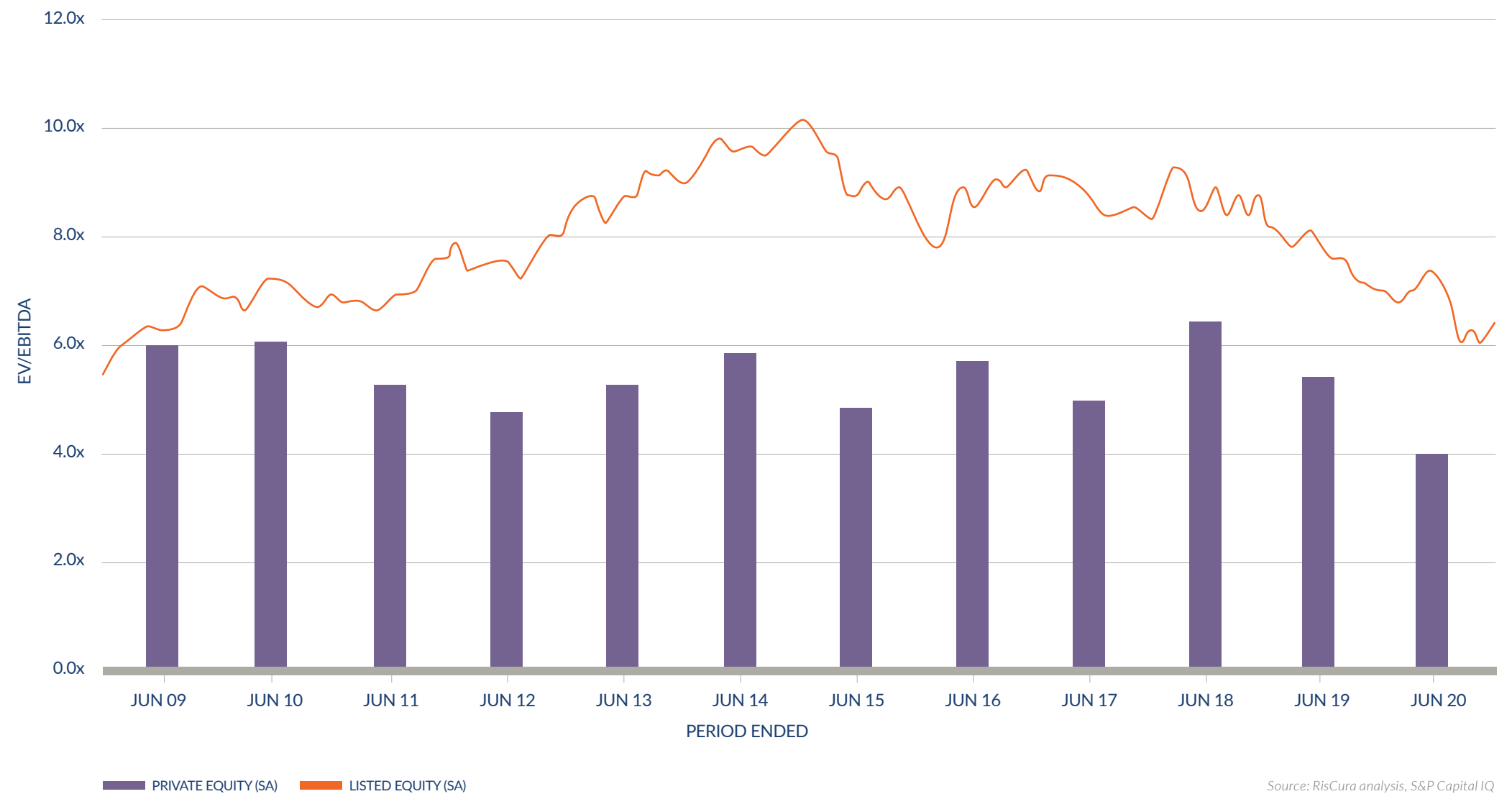
## South Africa

In line with listed pricing, the median South Africa private equity EV/EBITDA multiple has been steadily decreasing since June 2018. The country's most recent challenges stem from the global COVID-19 outbreak. Due to the measures implemented to limit the spread of the virus, a widespread disruption across industries has resulted in a decline in economic activity, which is expected to lower asset quality and earnings, as seen in the decline in the median private equity EV/EBITDA multiple from December 2019 to June 2020.

The pandemic is expected to reduce demand for South Africa's exports, weaken industrial, air freight and mining activity (amongst others) and increase the already significant levels of unemployment. South Africa remains highly exposed to growth slowdowns in China and the EU, the decline in international tourists, and downward pressure on commodity prices. Sustained fiscal deficits will see public debt continue to rise. The effect of the lower domestic real interest rates, increased global risk-off sentiment and slow domestic growth, will place the South African rand on a depreciatory trend over the coming quarters. Although, the extraordinary levels of quantitative easing occurring in developed markets is likely to trigger another search for yield, which emerging and developing markets are set to benefit from.

## SA private equity prices on the decline

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



In the US, the availability of debt is consistently a determinant of the multiples paid for PE transactions. In the US, multiples are typically determined by adding a relatively fixed equity margin to the amount of debt that can be raised.

Of the Africa ex. SA transactions with sufficient data to analyse, 56% of companies targeted for acquisition between 2009 and 2020 reflected a net debt position on their balance sheets. The average Debt/EBITDA position of these companies was 1.60x over the period.

The consistently low levels of debt indicate that the private equity industry throughout Africa is still not debt-driven, with poorly developed local debt markets. Instead, African PE is driven by earnings growth and multiple expansion. Most fluctuation in multiples relates to investors' availability and willingness to provide equity funding.

South African companies have largely followed a similar trend: In respect of South African transactions with a reported Enterprise Value, approximately 60% of companies entered by PE funds in the 2009 to 2020 period reflected a net debt position on their balance sheets. The average Debt/EBITDA position of these companies was 1.95x over the period. The sophistication of the South African debt market in comparison to other African countries can be considered a contributing factor to the slightly higher debt levels.

**The debt level in African private equity increases marginally with transaction size but hasn't risen higher than 2x Debt/EBITDA since 2011. Compare this to the global norm, where Debt/EBITDA rises more quickly and to a higher level as company size increases.**

For instance, more than 75% of total US leveraged buyout transactions in 2019 had an average Debt/EBITDA ratio of more than 6x (Bain & Company, 2020).

PE firms do provide financing where obtaining affordable debt is not a viable option, as is the case across many African countries. There was a significant uptick in interest in private credit, with several private credit funds being raised in recent years.

## Availability of debt as driver of equity prices

African EV/EBITDA multiples compared to US



Source: RisCura analysis, S&P Capital IQ, Pitchbook

#### 4.2 By price range

Transactions in South Africa occur predominantly in the 3.5x-7.0x bracket, whereas in the remainder of Africa, an ever-increasing majority of transactions take place at a multiple exceeding 7.0x. The African multiples exceeded the South African multiple on average by 17%.

#### 4.3 By deal size

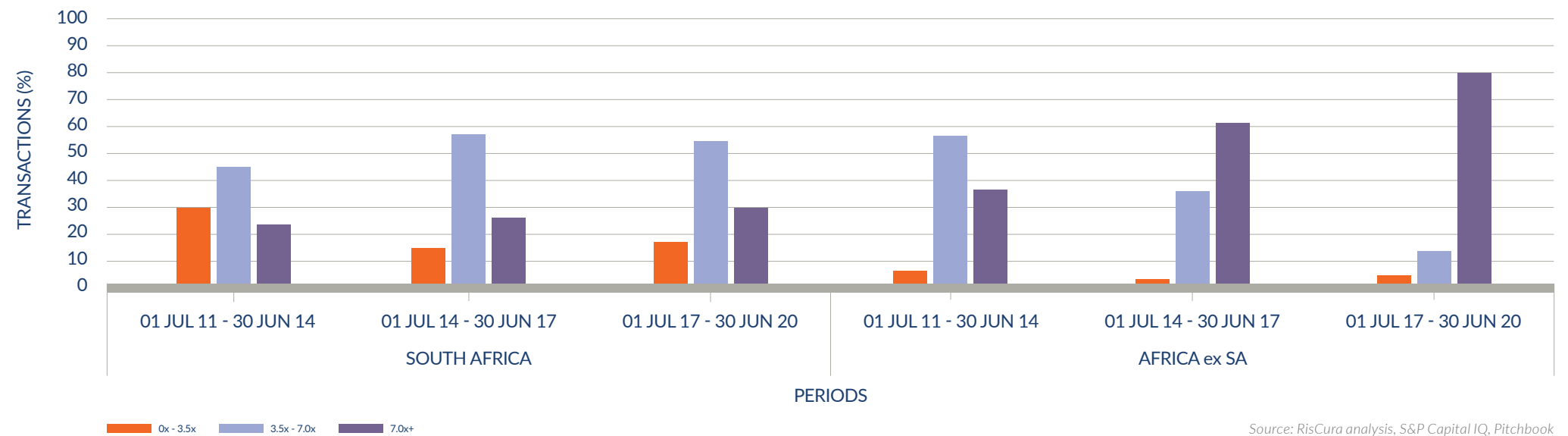
Historically, higher-priced transactions tended to take place at the larger end of the spectrum. However, a shift has been noted for African ex. SA companies, whereby regardless of the price range, the median EV/EBITDA multiples ranged from 7.9x to 8.7x. For South African companies, the median EV/EBITDA multiple of 4.7x for small transactions (smaller than USD 25m) is also seen in larger transactions (greater than USD 250m), which was priced at 4.5x for the July 2017 to June 2020 period, representing a 39% reduction in the median EV/EBITDA multiple from July 2011 to June 2014.

Although smaller transactions in South Africa have maintained a relatively consistent median EV/EBITDA multiple across the periods, the median EV/EBITDA multiple for transactions occurring between the USD 25m – USD100m price range has more than doubled from June 2012 to June 2020.

South Africa's macro-economic headwinds may have made larger companies that are broadly exposed to the South Africa economy less attractive than smaller niche firms that can operate in more niche areas.

### Transaction multiples relative to their price range

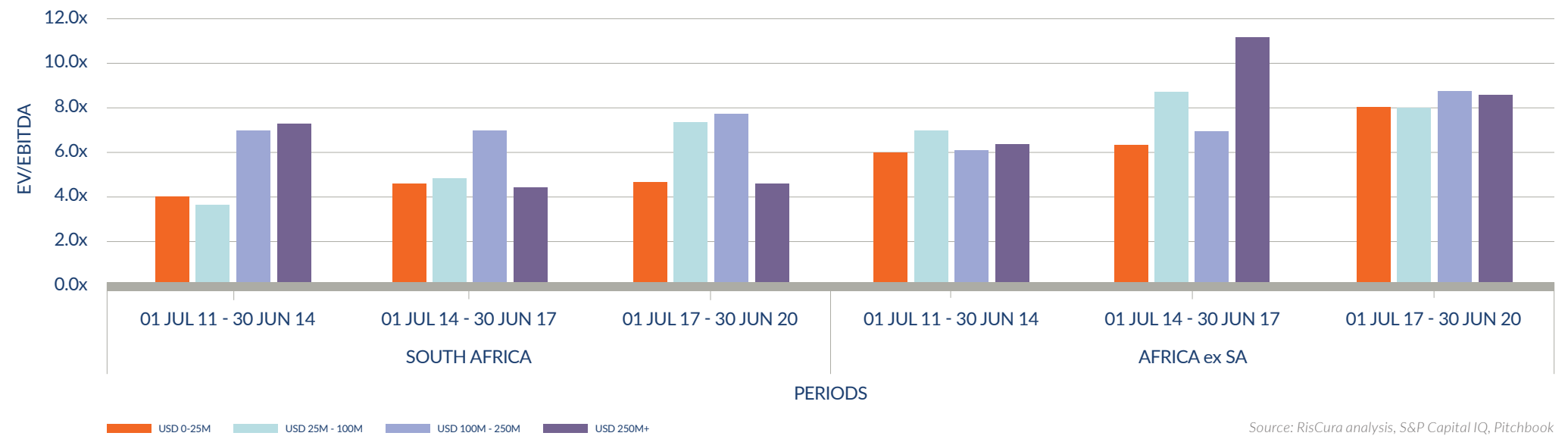
Count of EV/EBITDA multiples by price categories



Source: RisCura analysis, S&P Capital IQ, Pitchbook

### Transaction multiples relative to their size

Median EV/EBITDA multiples of private equity transactions



Source: RisCura analysis, S&P Capital IQ, Pitchbook

#### 4.4 By sector

Historically, the range of EV/EBITDA multiples across sectors and company sizes are relatively small. Information technology (IT) and consumer discretionary remain the two sectors with the highest investment activity.

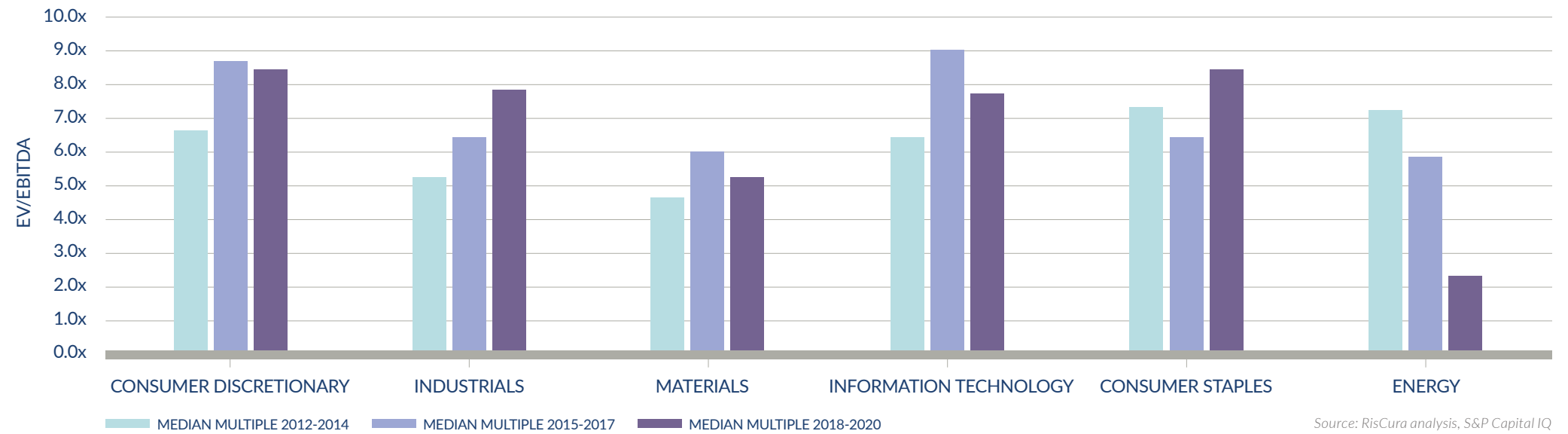
The highest EV/EBITDA multiples throughout the Africa ex. SA region is historically seen in the consumer discretionary (7.8x) and consumer staples (7.6x) sectors, which promise high growth due to African demographics. Consumer discretionary is one of the sectors with the highest EV/EBITDA multiple in South Africa. However, for the period June 2018 to June 2020, information technology (8.1x) surpassed consumer discretionary (7.7x) for being the sector with the highest EV/EBITDA multiple.

The median EV/EBITDA multiple for Industrials of 7.9x for Africa ex. SA and 6.0x for South Africa for the period June 2018 – June 2020 has increased on average by 14% compared to the June 2015 to June 2017 period, driven by an overall increase of 63% in transaction activity over the same periods.

Although an increase in transaction activity has been observed in the communications sector, the median EV/EBITDA multiple has remained relatively flat throughout Africa, averaging 5.9x. Most deals in this sector were focused on alternative carrier and wireless telecommunication services companies.

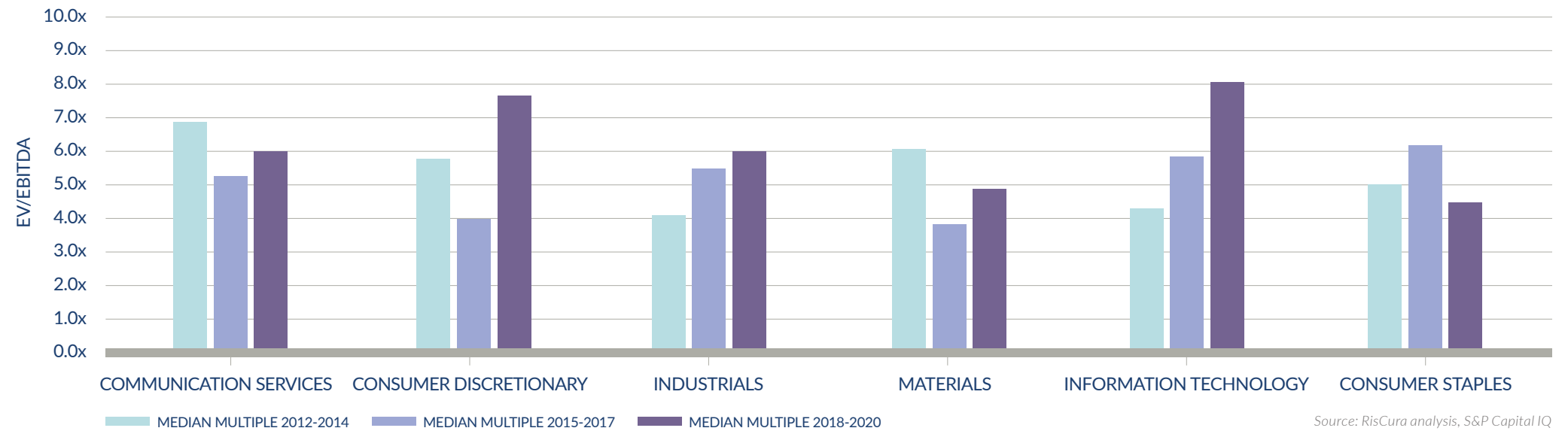
#### Africa ex. SA deal multiples by sector

01 July 2011 to 30 June 2020



#### South African deal multiple by sector

01 July 2011 to 30 June 2020



## Conclusion

When looking at the prices for private equity assets in South Africa and Africa and the landscape that influences it, we can see market fundamentals reflected.

Muted asset prices directly reflect South Africa's poor growth outlook, an increased risk profile, and the impact of the pandemic. The average EV/EBITDA multiple paid for a private equity asset is currently the lowest it has been since we started gathering data more than ten years ago. However, the asset class has a proven track record of outperformance in weak economic growth and market volatility. Combined with current low prices, this may indicate that funds currently deploying capital will return good performance relative to other asset classes.

When one looks at the prices of African private equity assets excluding South Africa, it can be difficult to understand price movements purely when looking at the cost of equities calculated using the capital asset pricing model (CAPM) and growth forecasts. To correctly interpret this, one needs to understand African capital markets and CAPM well. CAPM relies heavily on several underlying assumptions, which are stretched to the breaking point when looking at African capital markets, especially the private equity market. The most relevant are assumptions such as frictionless trading between asset classes, which stands in stark contrast to illiquid capital markets, the fund commitment model, and restriction on the free movement of capital.

Despite erratic fundraising and mixed risk and growth outlooks, market trends in African private equity have remained constant. Deal activity is growing significantly, and prices have stabilised since June 2017 at a level that currently exceeds that of listed companies. In 2020, despite the dramatic drop off of funding, and the change of risk and growth outlook, prices and deal activity have remained stable, with only a slight decrease in prices observed in the first six months of 2020.

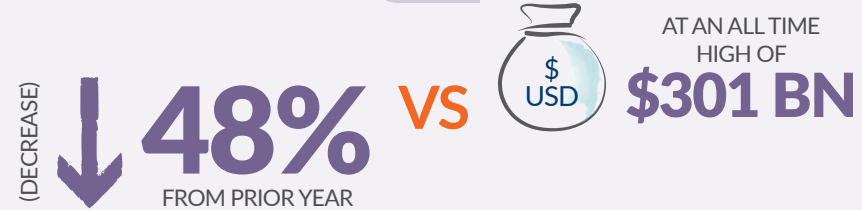
It appears that the significant amount of committed capital has had a stabilising effect on pricing, which is likely to survive short-term changes in funding levels and risk profile. However, the committed capital model can only delay the efficiency of markets, and prolonged decreases in fundraising and risk outlook are likely to filter through to pricing eventually. The sharp decrease in the fundraising experienced because of the pandemic and resultant economic slowdown is expected to continue for at least 18 months. If these trends do continue, prices may prove to be less buoyant going forward.

# Private Equity in Africa Highlights

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## A tale of two markets

Numbers showing growth or decrease for 2018 - 2019 for EM and Developed Markets



SA



## Cost of Equity

Change in COE

DECEMBER 2019 - MARCH 2020  
MARCH 2020 - JUNE 2020



## Trends observed from investment theme fundraising

From section on Fundraising over time



IN PE FUNDRAISING  
OVER 2019



FOCUSED ON THE INFRASTRUCTURE  
AND ENERGY SECTOR

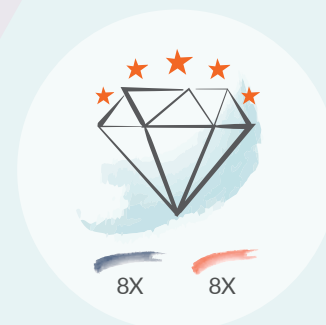


COMPARED TO THE FUNDRAISING  
CLOSED IN 2018

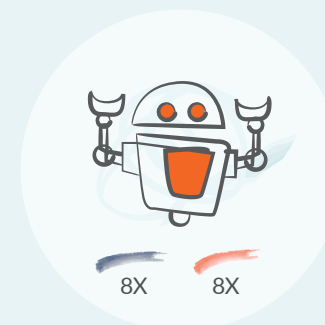
## Pricing

Africa ex. SA and South Africa only deal multiples by sector (median multiple 2018-2020)

AFRICA EX. SOUTH AFRICA SOUTH AFRICA ONLY



CONSUMER DISCRETIONARY



INFORMATION TECHNOLOGY



INDUSTRIALS



MATERIALS



CONSUMER STAPLES