PEI Alternative Insight

September 2014 privateequityinternational.com

FOR THE WORLD'S PRIVATE EQUITY MARKETS

PRIVATE EQUITY INTERNATIONAL

THE AFRICA SPECIAL 2014

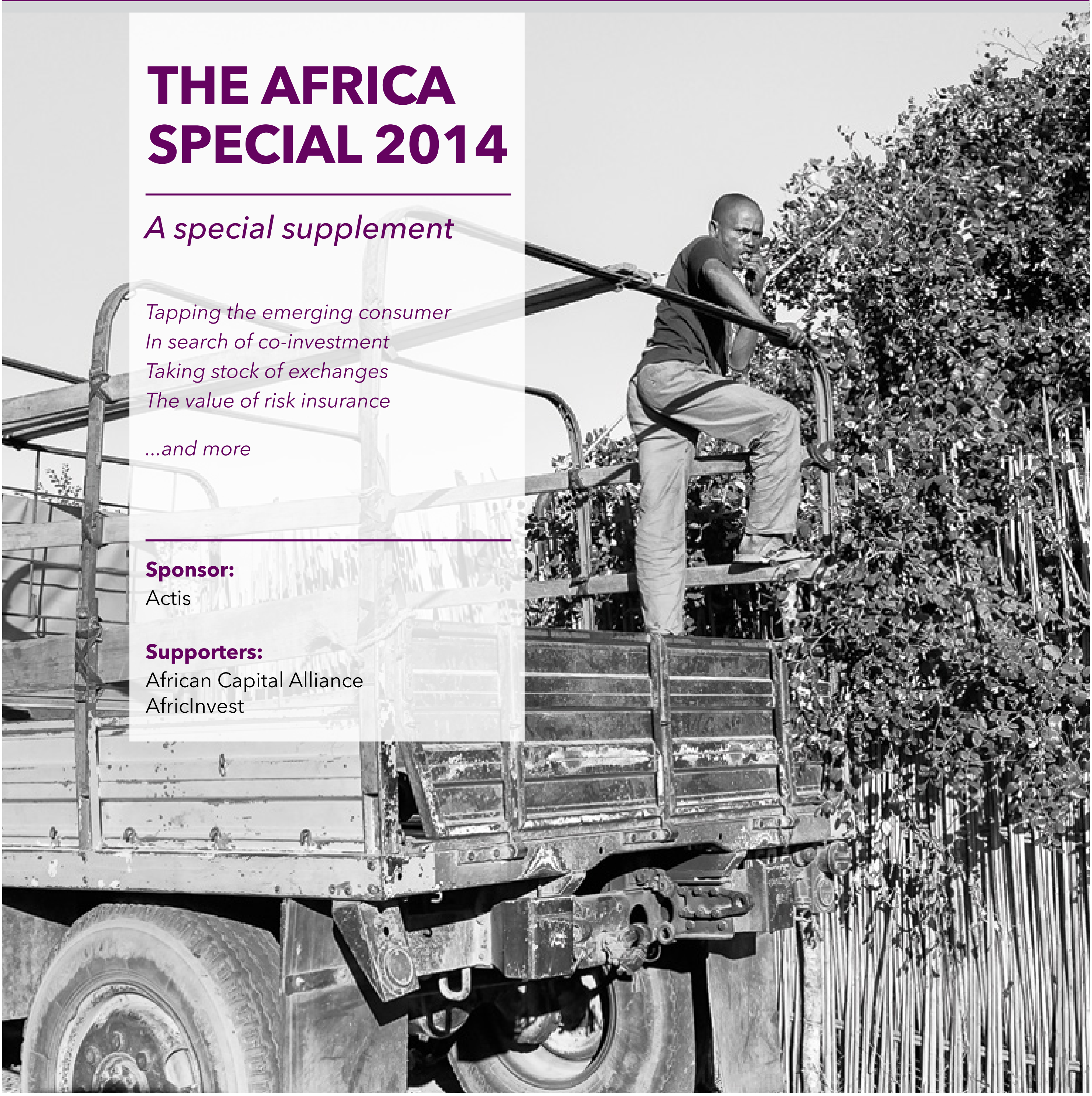
A special supplement

Tapping the emerging consumer
In search of co-investment
Taking stock of exchanges
The value of risk insurance

...and more

Sponsor:
Actis

Supporters:
African Capital Alliance
AfricInvest




the positive power of capital
65
year heritage
$6.5bn
funds under management
10
offices
160
investments made
100
exits
Actis
www.act.is
Africa
China
Latin America
South Asia
South East Asia

PEI Alternative Insight
PRIVATE EQUITY INTERNATIONAL

ISSN 1474-8800
SEPTEMBER 2014

Senior Editor
James Taylor
Tel: +44 20 7566 5438
james.t@peimedia.com

Senior Reporters
Yolanda Bobeldijk
Tel: +44 207 566 5463
yolanda.b@peimedia.com

Clare Burrows
Tel: +852 2153 3148
clare.b@peimedia.com

Bailey McCann
Tel: +1 917 288 6979
bailey.m@peimedia.com

Contributors
Rebecca Akrofie
Jeremy Hazlehurst
Vicky Meek
David Turner
Dave Waller

Production and Design Manager
Miriam Vysna
Tel: +44 20 7566 5433
miriam.v@peimedia.com

Head of Advertising
Alistair Robinson
Tel: +44 20 7566 5454
alistair.r@peimedia.com

Subscriptions and reprints
Andre Anderson
+1 646 545 6296
andre.a@peimedia.com

Jack Griffiths
+44 207 566 5468
jack.g@peimedia.com

Ryan Ng
+852 2153 3140
ryan.n@peimedia.com

For subscription information visit
www.privateequityinternational.com.

Editorial Director
Philip Borel, philip.b@peimedia.com

Head of Research & Analytics
Dan Gunner, dan.g@peimedia.com

Publishing Director
Paul McLean, paul.m@peimedia.com

Group Managing Director
Tim McLoughlin, tim.m@peimedia.com

Managing Director – Americas
John A. Higgins, john.h@peimedia.com

Managing Director – Asia
Chris Petersen, chris.p@peimedia.com

Co-founders
David Hawkins, david.h@peimedia.com
Richard O'Donohoe, richard.o@peimedia.com

Emerging excitement

JAMES TAYLOR
EDITOR'S LETTER

I wonder if, with the benefit of hindsight, we'll look back on 2014 as the year when African private equity really came of age. I certainly can't remember a time when there was this much excitement about Africa as an investment destination. And the latest fundraising totals – led by Carlyle's new vehicle, which took its time to get going but eventually got to almost $700 million – illustrate clearly that LPs are actually putting their money where their mouths are (p. 6).

Of course, some of this is due to the slowdown in other emerging markets that have been more fashionable in recent years (notably China and Latin America).

But it's also a consequence of Africa's remarkable growth story, which few other regions in the world can currently match. For private equity buyers, a market that's expanding at 5 percent plus a year is not to be sniffed at in today's low-growth environment.

There are a few investment themes that look particularly appealing. Energy and infrastructure continue to be important, of course. But perhaps the most interesting theme is the rise of the emerging consumer: as per capita income steadily increases in Africa, an expanding middle class is emerging that is looking to spend its newly-acquired disposable income. This 'next billion', as they're sometimes called, surely represent one of the most compelling opportunities on the planet today.

In this special supplement, we take an in-depth look at how private equity groups are trying to tap into the consumer play directly (p. 9). And we also examine another closely-related area: financial services (p. 11). Here, specialist knowledge remains a key differentiator, just as it does in developed markets. But with many of the big financial services players in those developed markets looking to buy growth, private equity firms are unlikely to find themselves short of exit options if they can help to build well-run businesses of scale.

In fact, one thing that jumps out from all the articles in this supplement is how much the exit environment has improved for African GPs. As well as the plethora of trade buyers on the prowl, local exchanges are developing the sort of depth and breadth that make them viable options when firms want to realise their investments, as we discuss on p. 18.

None of this is to say that Africa has suddenly become a risk-free place to invest. There are myriad dangers for the uninitiated and incautious – and while insurance facilities are becoming more popular, as we explain on p.22, they can't obviate these risks altogether. The growing interest in co-investment (p. 16) might even magnify some of them.

But it's clear that LPs and GPs alike are excited about the huge opportunity the continent offers. The question becomes now: which of them can deliver?

Enjoy the supplement,

James Taylor

e: james.t@peimedia.com

THE AFRICA SPECIAL 2014

3 **News in brief**

4 **Overview: A growth story**
This year's fundraising numbers suggest that LPs are fully bought into the Africa opportunity

6 **Keynote interview: Actis**
David Morley explains why the sub-Saharan property market has become an attractive option for investors

9 **Growing appetites**
Consumer plays are becoming popular as investors look to cash in on Africa's favourable demographic trends

11 **Banking on growth**
Recent transactions have highlighted the growth opportunity in the financial services space

13 **Keynote interview: African Capital Alliance**
Okey Enelamah says investors can't afford to ignore Nigeria's remarkable growth story

16 **Dipping a toe**
Why Africa is seeing greater demand from LPs for co-investment opportunities

18 **Taking stock**
African stock exchanges seem to be becoming a more viable exit route for private equity

19 **Expert commentary: AfricInvest**
Ann Wyman on private equity's role in helping African companies expand beyond their home borders

22 **Political premium**
How political risk insurance is becoming a more widely accepted tool for large investors to de-risk

23 **Local partners**
Five African pension funds that are becoming important players in the local industry

24 **All change in OHADA**
Linklaters' Bruno Derieux outlines the benefits of the new corporate law regime in the OHADA zone


9


11


18

Cover photo by Anton Ivanov (via Shutterstock.com)

NEW YORK
16 West 46th Street, 4th Floor
New York NY 10036-4503
+1 212 633 1919
Fax: +1 212 633 2904

LONDON
140 London Wall
London EC2Y 5DN
+44 20 7566 5444
Fax: +44 20 7566 5455

HONG KONG
14/F, Onfem Tower
29 Wyndham Street
Central, Hong Kong
+852 2153 3240
Fax: +852 2110 0372

Private Equity International is published 10 times a year by PEI.

To find out more about PEI please visit: **www.thisisPEI.com**

PRINTED BY
Hobbs the Printers Ltd
www.hobbs.uk.com

ISSN 1474-8800

FSC www.fsc.org MIX Paper from responsible sources FSC® C020438

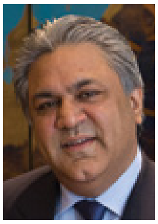
NEWS IN BRIEF

Big in Africa

Some of the big stories in African private equity in 2014, as reported on privateequityinternational.com

ABRAAJ TARGETS $1BN FOR AFRICA

The Abraaj Group, led by Arif Naqvi, was revealed as attempting to collect $800 million for Abraaj Africa III, which will invest in mid-sized companies in sub-Saharan Africa. The details emerged in a filing by the International Finance Corporation (IFC), which was considering an allocation of up to $50 million. Abraaj is also raising $200 million for Abraaj North Africa II, which will target investment opportunities primarily in Tunesia, Morocco, Egypt and Algeria.



***Naqvi:** big plans for the region*

CARLYLE AND BLACKSTONE PARTNER WITH DANGOTE

The Carlyle Group and The Blackstone Group both formed strategic partnerships with Dangote Industries, an African business conglomerate, in a push to target energy-focused deals in sub-Saharan Africa. Blackstone and Dangote will jointly invest up to $5 billion over the next five years in Sub-Saharan African energy infrastructure, while Carlyle and Dangote will co-invest in the consumer, financial services and agribusiness sectors.

AMETHIS BEATS TARGET WITH $380M FINAL CLOSE

Africa-focused private equity firm Amethis Finance closed its first private equity fund on $380 million, beating its original $350 million target. The pan-African firm now has up to $530 million of capital to invest on the continent, having secured a $150 million debt commitment from US government development finance institution OPIC to go alongside the vehicle.

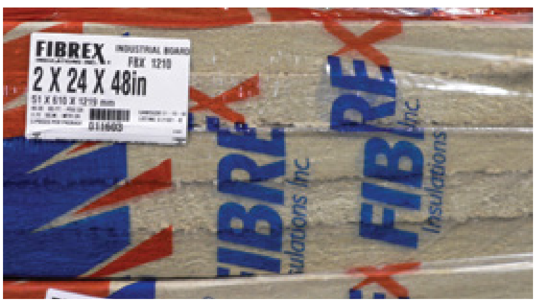
ACTIS IN $86M ELECTRICITY EXIT

Emerging market specialist Actis sold a 39 percent stake in Ugandan electricity distributor Umeme for approximately $86 million. The firm exited the company via a share sale on the Uganda Securities Exchange (USE) and the Nairobi Stock Exchange (NSE). Among the 20 investors who bought shares in the company were Investec Asset Management and Uganda's National Social Security Fund (NSSF), which has joined Actis as a cornerstone shareholder in Umeme.

ABRAAJ SEALS FIRST ANGOLA EXIT

The Abraaj Group realised its investment in Fibrex, a manufacturer of high-density polyethylene (HDPE) and other low-pressure plastic pipe products used in the construction industry, for an undisclosed sum. Since Abraaj invested in Fibrex in 2007, its operational support has led to an upgrade in energy supply infrastructure, improved governance, accounting and reporting standards, and increased environmental efficiency in the business, the firm said.

***Fibrex:** upgraded under PE*



AVCA HIRES HEAD OF STRATEGY AND RESEARCH

The African Private Equity and Venture Capital Association appointed Dorothy Kelso as a director and head of strategy and research. Kelso, a Ghanaian native, has 15 years of research, strategy and private equity experience gained at organisations including EY, Coller Capital, IE Consulting and the IMF. Most recently, Kelso was an associate director in the private equity strategic market intelligence team at EY in London.

FUSION PICKS UP KENYAN NEWSPAPER BUSINESS

Fusion Capital acquired a 40 percent stake in Xtra Publishing Limited, which produces a free newspaper called 'X News' and digital content in Kenya. The newspaper will be supported by online and mobile services targeted at a young professional demographic. The investment by Fusion will be used for advancing IT and editorial systems as well as for working capital requirements.

KIBO CAPITAL PARTNERS HOLDS $50M FIRST CLOSE

Kibo Capital Partners held a $50m first close for its second fund, Kibo Fund II, which will target growth capital investments in East Africa, Southern Africa and the Indian Ocean islands. Investors include development finance institutions. Approximately 30 percent of the capital came from pension funds, family offices and other institutional and commercial investors. ■

OVERVIEW

A growth story

This year's fundraising numbers suggest that LPs are fully bought into the Africa opportunity. By James Taylor

In August, at a US-Africa Summit in Washington DC, The Blackstone Group announced a $5 billion joint venture with the conglomerate run by Africa's richest man, Aliko Dangote, to invest in energy infrastructure projects. On the very same day, the Carlyle Group announced its own separate strategic partnership with Dangote, which will also target energy-related deals.

These deals – by two of the biggest names in private equity – are emblematic of the surge in interest in Africa among investors over the past 12 months. As other emerging markets have slowed down, Africa has continued to power ahead, with the World Bank predicting growth of 5.2 percent in 2013. For private equity firms, the continent's demographic trends, natural resources, and infrastructure requirements add up to an enticing opportunity. As Carlyle's co-CEO David Rubenstein put it on a panel at the summit: "The great explosion in private equity, if it is going to occur anywhere around the world in the next couple of years, is probably going to be in Africa, particularly sub-Saharan Africa."

Essomé: our advice is to go yourself

THE PLACE TO BE

No wonder, then, that LPs are showing increasing interest in funds dedicated to the region. The numbers are clear: according to *Private Equity International*'s Research & Analytics division, Africa-focused funds closed on $2.57 billion of capital in the first half of 2014. That's more than in the whole of last year, and twice as much as in 2012 – and it means the region is on course to comfortably surpass its record fundraising year of $3.59 billion, in 2010.

Carlyle has been one of the leading drivers of this: its Sub-Saharan African fund closed in April on almost $700 million, well above its $500 million target, and the firm's formidable fundraising machine has clearly played an important role in spreading the Africa growth story to a broader universe of LPs.

Michelle Kathryn Essomé, chief executive officer of the African Private Equity & Venture Capital Association, says she's very optimistic about capital-raising, for a couple of reasons. "We are still seeing growing interest, particularly from the US, and strong fund closes from GPs with track records, strong teams and an 'on the ground' presence. Carlyle and Amethis surpassed their targets, with significant private institutional capital. We think this trend will continue and, more importantly, prompt investors to look anew at Africa."

"Africa is the place to be right now; it's attracting a lot of attention and interest," says Davinder Sikand, who oversees The Abraaj's Group's investments in Africa. "It's changing rapidly and the requirement for infrastructure is enormous – so the appetite for investment is huge, and it will be there for many years to come."

According to a recent filing by the International Finance Corporation, Abraaj is currently in market with an $800 million sub-Saharan Africa fund, as well a $200 million North Africa fund. Sikand declined to comment on fundraising, saying only that the firm was generally "encouraged by the appetite" for Africa, which was bringing "an interesting batch of new investors" into the region.

"We're seeing good interest in Africa and its growth story," says Hurley Doddy, co-CEO of Emerging Capital Partners, which is also reportedly in market with a new fund. "The drivers are largely macro: US equities are at new highs, interest rates are near zero, so investors are searching for returns. That's leading people to Africa, because it's one of the few economies that's actually growing."

TOO MUCH CAPITAL?

There's a broad range of attitudes to Africa across the investor universe. Some are attracted to its manifest advantages, but are still worried about issues like corruption and transparency and political risk. Others, generally experienced emerging market investors, are looking to compare it with other such markets – and in some cases, are still waiting to see evidence of performance from some of these relatively young GPs. And others again are actively exploring the region on the ground.

"We say [to investors]: go see for yourselves, don't be dissuaded by what you see on the news," says Essomé. "Speak with your peers, especially the development finance institutions who have both commercial and development goals. Perceptions are definitely changing. I wouldn't say that it's easy to raise capital, but more investors are feeling comfortable and excited about

Africa now." That even applies to post-conflict countries like the Cote d'Ivoire, Sierra Leone and Liberia, she says.

"I think investors are now a little bit more knowledgeable about Africa," suggests Doddy. "They're more likely to ask about the emerging consumer and how we're going to tap into that, rather than thinking it's all about South Africa or the extractive industries. That's a change."

One question that's already starting to preoccupy some investors is whether there's too much capital flowing into Africa, he says. "LPs are concerned about whether there's too much money going in. But personally I think the main constraint is the number of GPs, and the difficulty of establishing operations that can cover the whole continent. I still feel strongly that there are plenty of good opportunities."

Dealflow has certainly been pretty solid so far this year; by mid-July, total financial sponsor-related M&A in Africa was $1.48 billion, which is already more than the full-year total for 2013 and not far behind the 2012 full-year total. It also accounted for 9 percent of total M&A in Africa, a higher proportion than any year in the last five apart from 2011.

What's also notable is that whereas energy has been the most significant sector in the last few years, construction, financial services, and retail/consumer and energy have all surpassed it (in terms of total deal value) in 2014.

However, Sikand insists that there's a plethora of opportunity across the spectrum. "Sectors are important, but it's really about the individuals you back."

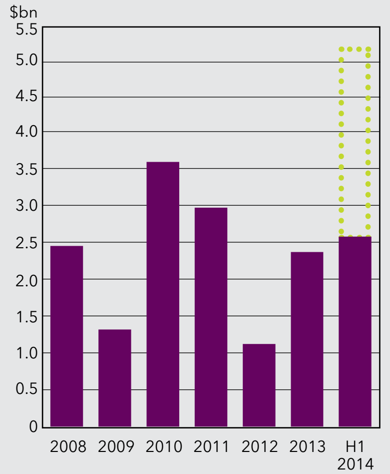
NEW WAYS TO GROW

So what next? Practitioners say that hiring high-quality management talent – long an issue in Africa – is gradually starting to get easier.

> ***Africa is the place to be right now; it's attracting a lot of attention and interest***
>
> **Davinder Sikand**

AFRICA FUNDRAISING TOTALS, 2008-2013

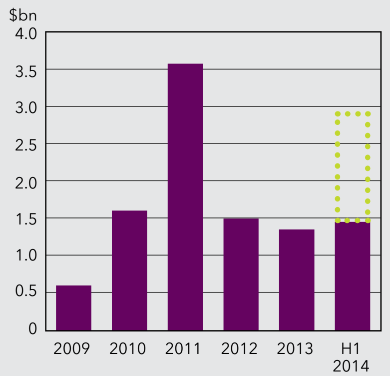
Africa is on course for a record fundraising year



Source: PEI

FINANCIAL SPONSOR-RELATED DEAL VALUE

Energy businesses have been the big M&A driver in Africa



Source: PEI

"We are seeing a number of Africans who have studied and worked overseas and are now wanting to return home because they see the opportunities in Africa," says Sikand. "And at the same time the local education system and the local resources are improving."

"We've found some very sophisticated entrepreneurs," adds Nick Luckock, a partner at Actis. "The depth of their management teams has sometimes been more of a challenge, in certain circumstances, but it hasn't been an insurmountable one. And it's getting easier: Africa is becoming more attractive to people. So it's becoming less of a challenge."

On the investment side, more LPs seem to be looking at direct deals. "Co-investment is not brand new, but it's more important in Africa now than it was a few years ago," Doddy argues. "So the ability to give people good co-investment ideas is definitely at a premium, and that's likely to continue."

There are also signs of some mezzanine and debt players starting to appear in the market.

"It's not a wave yet, because mezz return are still quite high, almost equity-like," says Doddy. "But when you see countries issuing Eurobonds at attractive rates, it sets the benchmarks low enough that you could at least consider whether it's sensible to raise money for your company that way. So that could be the start of a trend towards more corporate debt related to private equity investing."

"I like that, because it means the ecosystem's expanding and maturing," adds Essomé. "You have fund managers across the size scale, you have foundations that invest in funds or directly, you have funds of funds for institutions with limited bandwidth – it's all providing different ways for private African companies to access capital and grow." ■

REAL ESTATE

Impact building

The sub-Saharan property market is an attractive option for investors given the region's changing demographics and attractive risk-return characteristics, says David Morley of Actis

***Morley:** important to be welcomed*

Sub-Saharan Africa is a hot spot that is increasingly attracting investor interest: its population is expected to double to 2.4 billion by the mid-point of this century, including an ever-expanding middle class. And few private equity groups know this region better than Actis, which in its current and former guises – it spun out of the UK government's Commonwealth Development Corporation ten years ago – has over six decades of investment experience in the region.

"There is no doubt that Africa is on the radar screen of global investors in a way that it has never been before," says David Morley, the firm's head of real estate. "There have been a number of firms that have raised significant capital."

Property, an area in which Actis has developed a particular expertise, is usually part of that mix, says Morley. "The sub-Saharan real estate market is attracting more attention than it has ever done, especially from South African players. There is no doubt that there is more interest as prospects are tougher within South Africa."

Actis is currently working on six developments in five different markets, with a total value of around $1 billion. These include high-profile developments like Jabi Lake Mall, the 25,000 square metre retail mall in Abuja, and The Exchange, another retail and office property close to Ghana's Kotoka International Airport. Actis has either completed, or is currently working on, projects in Kenya, Nigeria, Ghana and Zambia.

Actis's experience on the continent allows it to operate in these markets utilizing on-the-ground teams across the region.

It's not that there aren't unique risks in these markets, it's that Actis has a deep legacy of managing these risks, starting with careful selection of the opportunities, "We look for a stable macro backdrop, preferably with a history of democracy and peaceful administration change," Morley says. "We look to those markets where the cities offer a combination of scale, growth, wealth and a regulatory environment that is sympathetic to international investment."

NOT JUST WHAT, BUT HOW

The projects on which Actis is currently working are a combination of office space, retail and homes – often with a sustainability angle.

Garden City in Nairobi, Kenya, for instance, is a 32-acre mixed residential, retail and office development with 420 apartments, duplexes and townhouses, a business hotel, 20,000 square metres of office space and a 50,000 square metre mall, the largest in East Africa. It will also be the first building in Kenya to be LEED-certified, meaning that it meets internationally-recognised standards of sustainability. Actis is conscious of the social and environmental aspects of real estate development, and works hard to ensure that its developments contribute to the local areas in which they're situated.

"We are at the cutting edge of that on the real estate side," suggests Morley. "We are developing a portfolio of internationally-rated buildings that incorporate both environmental and social dimensions. We are creating assets that will endure 30 or 40 years, but also which enhance the communities in which they are located.'

That's particularly true with Garden City, Morley says. "We have created an environment that is open to the public, incorporates a significant amount of leisure space and will represent a 'green lung' in the city." In doing so, he argues, Actis is just applying the same principle that it would apply to developments in more mature markets: "We care not only about how much money we make, but how we do it." This isn't just about the right way to behave and invest, either; it can also have practical benefits. Actis remains focused on getting the best risk-adjusted returns for their investors, but firmly believes that this does not have to mean ignoring the other elements. Given the number of countries in which Actis operates, there is a requirement to maintain the 'license to operate' within those countries. With a broad diversification of locations and countries, risk is better diversified, but it also means that Actis has to pay attention to what is happening within each country.

"There is no doubt that the governments of the countries in which we invest are dealing with a whole host of challenges, not least income inequality, unemployment and environmental challenges," he explains. "Foreign investors who recognise that and shape their investments to help address those – even in a modest way – are welcomed. And it's important to be welcomed."

SCRATCHING THE SURFACE

The real estate landscape in Africa is changing explains Morley. "The industry is migrating from the opportunistic land owner towards developers who have multiple projects and years under their belt. And Actis has that experience."

Add to that experience a compelling set of underlying drivers such as demography and demand, and you have a strong story.

"If you are going to take a medium to long term perspective, then the demographic story in Africa is hugely compelling. It is more the growth of domestic purchasing power, particularly in the retail and residential sectors," he says. "It's about the urban and middle class."

The nature of demand is also changing in sub-Saharan Africa, creating opportunities that weren't there even a decade ago. For instance, one of the drivers of corporate office real estate is multinational firms' eagerness to get a taste of the growth story in the region – and the cities Actis operates in tend to be regional hubs, well suited to house these firms.

Morley acknowledges that execution is a key element. Experience matters, and although there will be "bumps along the way" in certain markets, real estate is one of those assets that is "particularly well suited to riding out any short-term volatility".

Those long-term trends ought to bode well for Actis. Morley says that the markets the firms currently operates in "will continue to offer opportunities". And these are just five out of over 50 in the region. "There is scope to do more in other markets too – Mozambique and French West Africa, for example. And potentially Ethiopia as well, which is a large market that is starting to open up.

We are opportunity long and capital short, and therefore we expect to be able to grow our business over the next few years. I think in some ways we are just scratching the surface." ■

There is no doubt that Africa is on the radar screen of global investors in a way that it has never been before

65+
years of on-the-ground experience

$6.5bn
funds under management

212
limited partners

101
investment professionals

10
offices

70
portfolio companies

27
countries

114, 444
employees of Actis portfolio companies

ABOUT ACTIS

Actis invests exclusively in emerging markets. With a growing portfolio of investments in Asia, Africa and Latin America; it currently has US$6,5bn funds under management.

Combining the expertise of over 100 investment professionals in nine countries, Actis identifies investment opportunities in three areas: private equity, energy and real estate.

Africa lies at the core of the firm's investment strategy. Today over 40% of Actis's investments are located in Africa with over $1.5 billion invested across 13 countries on the continent. As sub-Saharan Africa's most experienced private equity backed real estate investor, since 2006, Actis has developed 15 institutional quality assets in six countries in sub-Saharan Africa.

The firm, which was founded in 2004, building on a sixty year heritage, operates under the highest standards of ESG in the industry and helped the UN define the code for responsible investing.

In 2014 Actis was named 'Private Equity Firm of the Year in Africa' and 'Private Equity Firm of the year in MENA' by *Private Equity International* (*PEI*), 'Firm of the Year for Africa and the Middle East' by *PERE* and 'African Infrastructure Fund Manager of the year' by *Infrastructure Investor*.

RECENT INVESTMENT HIGHLIGHTS INCLUDE:

Société Nationale d'Electricité (SONEL): Cameroon's national integrated utility ($202m, June 2014)

Credit Services Holdings (CSH): A pan-African buy-and-build credit services business ($100m, April 2014)

Jiashili Food Group ("Jiashili"): One of the largest Chinese biscuit brands (April 2014)

Upstream: the leading emerging markets mobile monetisation company (April 2014)

AutoXpress: East Africa's leading tyre distributor (February 2014)

Paycorp: a leading payments business in South Africa ($95m, August 2013)

Edita Food Industries: a leading snack food business in Egypt ($102 million, July 2013)

Aela Energía: a renewable energy development set to become Chile's largest wind and solar energy provider ($290m, June 2013)

Globeleq Africa: 238MW of wind and solar projects in South Africa (November 2012)

Garden City: The largest retail mall in East Africa (US$36m, July 2012)

The Exchange: Office, hotel, residential and retail development in Ghana (32$ July 2012)

Tracker: South Africa's largest vehicle tracking company ($434m, October 2011)

Visa Jordan Card Services Company (VJCS): Jordan's largest merchant acquirer and national ATM switch ($87m, August 2011)

Vlisco Group: designer of wax fashion fabrics in West Africa ($151m, September 2010)

Jabi Lake Mall: Nigeria's first waterfront retail mall ($33m, November 2011)

Heritage Place: The first green building in Nigeria, office space ($108m, September 2011)

One Airport Square: The first green building in Ghana ($62m, December 2010)

You can learn more about Actis at
www.act.is

CONSUMER GOODS

Growing appetites

Consumer is a popular sector with private equity at the moment, as investors look to cash in on the continent's helpful demographic trends. David Turner reports

Fan Milk: *highlighted strength of buyer demand*

While on her travels sourcing private equity deals in Africa for the Duet Group, a $5 billion alternative asset manager headquartered in London, director Maty Ndiaye once spotted a jar of Nutella, the hazelnut chocolate spread that's very much a mass-market product in the developed world, on sale at an upmarket shop in Ghana for the princely sum of $10.

As Ndiaye points out, that's not the kind of item local Ghanaians are likely to buy; a $10 jar of breakfast spread is beyond the financial reach of all but a tiny number of the country's citizens.

However, Ghana's economy and income per head have been growing rapidly, with annual average growth in gross domestic product of about 6 percent over the past six years. And while most Ghanaians – in fact, most Africans – still buy their food from market stalls or small family-owned stores, Ndiaye notes that as the African middle classes grow, they are becoming increasingly inclined to use supermarkets, which provide a level of convenience for busy, income-rich but time-poor go-getters that local markets can never match.

Responding to this opportunity, earlier this year Duet invested $50 million in controlling stakes in two Ghanaian companies: Shop N Save, a supermarket chain, and GNFoods, a food manufacturing company. Shop N Save will target "middle-income west African customers", says Ndiaye. "We're investing in it because when we looked at organised retail in Ghana [i.e. retailing in the hands of formal companies, including supermarket chains] it was less than 2 percent of the market. In Kenya, it's 40 percent – and there's no reason why the Ghana figure can't move closer to that."

STRETCHING INCOMES

The consumer sector is, in the view of many Africa private equity specialists, the most exciting in the continent at the moment. Investors say that Africa is at a stage of development that creates the perfect conditions for consumption growth. GDP growth rates are strong, boosting income per head. And the continent is urbanising rapidly, pushing increasing numbers of people away from subsistence and into the market economy. As such, many parts of Africa are at a point where rising GDP is putting basic consumer goods, such as toothpaste, within reach of millions of people for the first time.

"Many African countries are seeing GDP growth north of 5 or even 7 percent," says Alex-Handrah Aimé, head of the Johannesburg office of Emerging Capital Partners, a private equity firm specialising in Africa. "Consumer growth could be several multiples of that over the next several years," she predicts. McKinsey, the strategy consultancy, estimates that consumer spending in Africa will increase by $410 billion between 2012 and 2020.

The key to success in the consumer sector, say private equity investors, is to attract both the long-established middle classes and those millions of people who, because of rising income, are beginning to experience middle-class life for the first time. Through its 2012 investment in Nairobi Java House, a Kenyan casual dining chain, ECP is hoping to straddle both »

» groups. "We're talking about people with sophisticated palates and consumers who, for the first time, have enough money to eat out once a month at a place like Java House," says Aimé.

As well as the experience of eating out, many consumers are keen (as are consumers all over the world) on indulgent snacking. Actis, the private equity house specialising in emerging markets, responded to this in 2013 by ploughing $102 million into Edita, an Egyptian manufacturer of chocolate croissants and other cheap snacks that sell across North Africa for an average of only 13 cents. "Many consumers are for the first time in a position to make discretionary purchases," says Andreas von Paleske, London-based head of Actis' consumer sector. "But they are seeking to stretch their income as far as possible, while benefiting at the same time from a new range of products hitherto unavailable to them."

Many private equity investors are particularly interested in Nigerian consumers, given the size of the potential market. Earlier this year, Nigeria officially became Africa's biggest economy, overtaking South Africa. Its population is predicted by the UN to rise from 175 million now to 440 million by 2050.

It was this potential that convinced Investec Asset Management to buy a minority stake in 2013 in Daraju Industries, a manufacturer of affordable toothpastes, soaps and detergents. Daraju's revenue has, says Mark Jennings, an investment principal in Investec Asset Management's private equity unit in Johannesburg, historically grown at "well over 25 percent a year". It fills a gap, he says: "There are big multinationals in the country, such as Unilever and Nestlé, offering premium products, but Nigerians also want access to value products."

> **Many consumers are for the first time in a position to make discretionary purchases. But they are seeking to stretch their income as far as possible**
>
> Andreas von Paleske

LESS POLITICAL WRANGLING

To many international investors, putting money into Nigeria – or other African countries with their share of political and social problems – remains a step too far.

Nina Triantis, head of financial sponsor coverage at Standard Bank in London, acknowledges that private equity investment in South Africa, a reassuringly familiar destination for many international funds, "is more comfortable for the more cautious investor". However, when it comes to investments outside that country, "the comfort level has increased substantially", with an "enormous amount of interest" in Nigeria and East Africa in particular. She says that a key reason for this is the greater opportunity to find the relatively large-scale investments that many international investors want – i.e. stakes worth $50 million or $100 million and above.

Triantis illustrates the increasing demand among private equity investors in consumer markets outside South Africa by citing the case of Fan Milk, a Ghana-based manufacturer and retailer of ice cream and frozen dairy products for the West African market. Standard Bank advised Danone, the French food product manufacturer, on the 2013 purchase of 49 percent of Fan Milk from the Abraaj Group, the Dubai-based private equity investor, which had just bought 100 percent of the company. Triantis asserts that these two transactions "have possibly attracted the most interest so far in Africa" of any sale to private equity, with "very serious numbers" of investors expressing interest. She credits this to Fan Milk's position in "the very sought-after fast-moving consumer goods sector" and to the "scarcity value of transactions of this large size" – which ultimately resulted in an enterprise value of hundreds of millions of dollars for the company.

Some international investors remain wary about the political instability faced by many African countries. However, investors say that in some ways, private equity investments in the consumer sector are less affected by political problems than other sectors, such as large mining or infrastructure projects, which can become caught up in political wrangling.

Aimé notes that ECP's planned flotation of Société d'Articles Hygiéniques (SAH), a rapidly growing Tunisian company that competes in the politically uncontroversial personal hygiene sector (making nappies and other hygiene products), was delayed by the Arab Spring, forcing the firm "to extend our investment horizon … We didn't want to sell or list it cheaply – allowing other investors to take advantage of the political instability – so we waited," she notes. In the end, it exited the business in December 2013 via a listing on the Tunisian Stock Exchange – it was at the time the largest such offering since the bourse's creation, and yielded a 2.4x cash multiple for ECP.

The case of SAH illustrates several of the key points about private equity investment in consumer-focused companies in Africa. Returns can be high; but investors must sometimes have the patience to wait for the right time to exit – and, sometimes, to hold their nerve in the face of political turmoil. ■

FINANCIAL SERVICES

Banking on growth

Interest continues to grow in the financial services space, where some notable recent transactions have highlighted the growth opportunity on offer. By James Taylor

One of the most eye-catching transactions in African private equity this year came in May, when Actis announced that it had sold its remaining 6.5 percent stake in Egypt's Commercial International Bank to Canadian group Fairfax.

The emerging markets specialist had bought a 9.1 percent stake in the bank – Egypt's largest – for $244 million in 2009. And despite having to deal with the Arab Spring and two Egyptian revolutions in the interim, it was able to exit five years later having doubled its money.

It was further proof – if indeed any was required – of the potential opportunities on offer in financial services in Africa, as increasing per capita income expands the pool of potential customers, and the local economies move away from cash-based payments.

MUCH TO DO

"The growth opportunities are enormous, across the continent," says Davinder Sikand, who's the partner in charge of The Abraaj Group's strategy and investments in Africa. "African cities are among the fastest-growing in the world, thanks to urbanisation and rural migration. People need to be housed, fed, educated and cared for – and less than 30 percent of them have access to financial services."

"You have the macro demographic story, with the emerging consumer and rising per capita income; you have greater connectivity via mobile; and you have the ongoing improvements in governance and political stability," agrees Doug Lacey, a partner at 'profit with purpose' group LeapFrog Investments, which specialises in insurance and related areas.

And while some markets are more sophisticated than others, there is plenty for private equity to do, according to Nick Luckock, head of financial services at Actis. "There is still a huge amount of white space. There are some large and sophisticated banks – but the 'supplier infrastructure' of independent firms around them still needs to develop."

As such, it's no surprise that there are an increasing number of potential buyers looking at assets in this sector.

"On the basis of the deals that cross our desk, there is certainly more interest," says Lacey. "There are more insurers looking at opportunities, from Prudential to Saham. And there's an increasing number of private equity players looking at the financial services space."

Of course, specialist teams still have an advantage, especially at the more technical end of the market. "Where we operate, in the mid-market, it's unusual to see the kind of specialists we have in our team, who have been doing this for 10-15 years," says Luckock. "But the competition is coming, and we expect to see one or two more emerge in due course."

STRATEGIC OPPORTUNITY

As yet, this extra interest is not translating into higher prices for financial services assets, he adds. "Entrepreneurs typically want to see two things: one, an understanding of the financial services marketplace in Africa; and two, a chance to sync this on a continental or pan-emerging market basis. Pricing tends to be a secondary consideration. I'm sure »

Egypt: *CIB deal proved it to be a resilient market*

CASE STUDY: APOLLO

In 2011, LeapFrog Investments paid about $14 million for a minority stake in Apollo Investments, a general and life insurance company with operations in Kenya, Uganda and Tanzania, led by Ashok Shah.

One of the first things LeapFrog did was to lead a group strategy review. "[The aim was] to agree which geographies they should target, and by when; what the various businesses should be contributing; what the return on capital should be; and what the governance and reporting metrics should be," says LeapFrog partner Doug Lacey. "This gave more clarity to Apollo's management about the way forward." Governance was also improved, with the appointment of three independent non-executive directors.

On the general insurance side, LeapFrog brought in two actuarial firms to conduct end-to-end reviews of the business. "The problem was that its two core lines were not running profitably, and that was taking up valuable management time and attention that could otherwise have been spent on the emerging consumer opportunity," says Lacey. "By changing that, we effectively helped to free up time for them to pursue this social mandate." One outcome of this was that it brought claims management for the health insurance policies back in-house, with the help of a new IT system.

On the life insurance side, where Apollo had effectively stopped writing new business: "We developed a new go-to-market strategy that went live earlier this year: we built a new agency model, set up a new system and got all the necessary product approvals." As a result, he says, business was up 150 percent year-on-year in 2013, and is up another 60 percent this year.

LeapFrog also installed a full-time analyst – an 'embed' – to work full-time in Nairobi for 18 months with the group executive team, helping to develop policies to target the emerging consumer and coming up with a strategy to target Rwanda and South Sudan. "This was a Harvard MBA with 5-6 years of experience working in the US and in emerging markets. So it's a calibre of resource that wouldn't normally have been available to them."

Apollo now has about 200,000 customers, about 150,000 of whom are classed by LeapFrog as 'emerging'. "Based on an average family of five, that means the policies are reaching about 750,000 emerging consumers," says Lacey.

It's a story that certainly seems to resonate with potential buyers. "Nothing is certain – but we're seeing more and more people knocking on the door wanting to acquire a stake."

» there will be some examples of [prices being inflated]. But we haven't specifically experienced it yet."

For his part, Lacey suggests that prices are starting to creep up in Africa – but they're still not at the levels of the comparable benchmarks in places like India, for example.

Nonetheless, it seems clear that the growing interest from trade buyers is going to have a big impact on the African financial services space in the coming years.

"The rise of international strategic buyer interest in Africa is going to be a big theme in the next five years – and from some surprising sources too," agrees Luckock. "For firms in developed markets and in other emerging markets, taking a material position in African businesses is likely to be high on the agenda for large-scale firms in the sector. So we'll see some interesting stories and transactions there in the next few years."

Private equity still has a lot to offer these businesses, of course. For instance, the greater flexibility tends to appeal to

> ***Entrepreneurs typically want to see two things: one, an understanding of the financial services marketplace in Africa; and two, a chance to sync this on a continental or pan-emerging market basis***
>
> **Nick Luckock**

entrepreneurs, Lacey says. "Our proposition is not 'command and control'; it's about working with partners to open up options. Trade players want full control from day one, which brings a whole set of corporate policies and processes – and often people running these businesses in Africa don't want to give up control."

Growth can also be faster with a private equity owner, he adds, citing Express Life, a Ghanaian business that LeapFrog recently sold to UK-listed insurer Prudential, as a case in point. "When we bought that business in 2012, within three months we had a new management team, new products and a new distribution platform firing on all cylinders. By comparison a large trade player bought a controlling stake in a competitor around the same time, and 12 months later, nothing had happened. So it's partly about the speed we can get businesses up the curve."

But the real value of this increasing interest from strategics is likely to be seen when GPs look to exit businesses. As LeapFrog found with Express Life, and Actis found with CIB, large multinational and regional financial groups are natural buyers of private equity-owned assets; indeed, according to Lacey, they're often willing to pay a premium for businesses that have been 'cleaned up' by private equity first. That represents a compelling opportunity to generate returns in the coming years. ■

WEST AFRICA

Ready to be counted

Investors can't afford to ignore the remarkable growth story happening in Nigeria, says ACA's Okey Enelamah

***Enelamah:** risks can be managed*

Africa's growth story may still be in its early chapters, but new heroes are already emerging. With the recent rebasing of its GDP, Nigeria has emerged strongly in the spotlight. Today it is the largest economy in Africa with total GDP of about $510 billion (2013). The country is in the company of a very select number of economies, such as China, that have managed to sustain a 6-7 percent year on year growth over the past decade and whose trajectories appear sustainable for some time to come. According to a recent McKinsey report, sustained momentum through 2030 could see Nigeria's annual GDP exceed $1.6 trillion and the nation placed as a top-20 economy.

All of the key factors powering African growth are very much at play in Nigeria. There's the demographic advantage: Nigeria's population of 170 million (around 16 percent of Africa's total) is growing at over four percent annually – it's expected to overtake the population of the US by 2050 – and around 50 percent live in urban areas. The result is one of the world's fastest-growing middle classes, with a relatively young population driving demand for consumer goods.

Nigeria also has abundant natural resources: it is the world's 12th-largest oil-producing economy, and also has vast untapped natural gas reserves. But thanks to the recent deregulation of its economy, its soaring GDP is actually being driven by emerging non-oil sectors: telecoms, financial services, agriculture and consumer goods and services.

"West Africa is ready to be counted," says Okechukwu Enelamah, founder and CEO of African Capital Alliance (ACA), a private equity firm that has raised over $700 million in capital to date and invests principally in Nigeria and the wider Gulf of Guinea. "But we have to earn our place: it's now about showing people what we can offer."

UNTAPPED POTENTIAL

Enelamah uses the example of telecoms to highlight both the effect of deregulation and the potential for private equity in other industries.

While the telecoms sector has seen rapid growth since 2005, there's still plenty of appetite for more: according to a Financial Times report, Nigeria remains 35,000 mobile phone towers short of what's needed for mobile broadband, the penetration rate of which currently stands at around 6 percent. The aim is to achieve a five-fold increase by 2018 (the World Bank reckons a 10 percent increase could mean additional GDP growth of 1.3 percent). And of course, the consumer dynamics driving growth in this sector are not unique to telecoms; they're also at work in power, financial services and other areas of retail too.

Enelamah is very aware of the role private equity can play in helping to convert this into dealflow. ACA invested in mobile provider MTN Nigeria in 2001. While some overseas LPs expressed concerns about the macro trends (this being the year the telecoms bubble burst), ACA believed the Nigerian market had its own drivers. Sure enough, thanks to what Enelamah calls Nigeria's "pent-up demand", the deal proved a success.

ACA found similar success with ABC Transport, which it exited in 2008 for a 4.7x return, having helped professionalise the company, expand its regional reach and prepare it for a listing on the Nigerian Stock Exchange.

Enelamah sees no reason why this effect cannot be repeated across the board. "Private equity helps to organise funding for SMEs as well as mid-market players – those companies who are looking for second round funding, having already gone via venture capital or family and friends," »

» he says. "And it's long-term risk capital. Private equity is playing a major role in filling that gap. We're now getting more investor interest from Asia and the Middle East. They like seeing the kind of returns we can deliver. Wealthy families are beginning to invest, following the sovereign wealth funds."

Another key role for private equity in Africa is that it provides alternative ways to invest the new wealth being created locally. This became easier in Nigeria in December 2010, when Nigeria's Pension Commission (PenCom) granted local pension funds permission to invest up to 5 percent of their assets in private equity.

"Crucially we're now getting more local investors too," says Enelamah. "Pensions assets are growing at a rate of about $150 million a month. PenCom's approval of private equity as an asset class is good all round, as LPs like to see good local involvement if they're to invest themselves."

NOTEBOOKS, NOT CHEQUEBOOKS?

But while Nigeria's macro picture looks enticing, Enelamah acknowledges that a degree of caution is required. Talking a good game about the country's vast potential is one thing; actually attracting that inflow of LP capital is another.

"Activity is limited still by the limited number of attractive GPs, and the limited number of LPs who've actually done their work and are ready to invest," he admits. "We have to be careful that the region isn't painted as having a flowing supply of capital. It's still largely interest at this stage. People tend to come first with their notebooks before they bring their chequebooks. And it's our job to help change that: much of this is down to education, an ongoing effort."

> **If you plan for exit at the point of entry, and build a business that's sizeable and strong, you'll find an exit**

One common perception among LPs of private equity in Africa is that exits remain extremely difficult, since its stock markets, debt markets and M&A markets lack the sophistication of other regions.

But while Enelamah recognises that it may take time to shift these perceptions, he believes ACA's track record should encourage others. "We've invested in 30 businesses and exited around half," he says. "We back businesses that are well-positioned, in key growth sectors of the economy, and we've successfully exited via IPOs and via management buy-backs. And while people talk a lot about the soft currencies of African nations, we account for our investments in dollars and give our returns in dollars."

Success, he insists, lies in doing your homework. "If you plan for exit at the point of entry, and build a business that's sizeable and strong, you'll find an exit."

And it seems ACA's experience isn't an isolated one: West Africa accounted for 28 percent of all African private equity exits from 2007-2013 (with 41 percent coming from South Africa).

Of course, many LPs and GPs remain cautious of Nigeria's poor track record in security and corruption. The road to democracy has certainly had its issues, with the results of national elections frequently in contention. And it's hard to escape the headlines about the activities of terrorist group Boko Haram.

But this shouldn't deter investors, Enelamah insists. "People are still doing business here," he says. "You have to understand the context. The government and security forces will try to contain the excesses of the militants – while for the rest of us, life goes on."

> **LPs like to see good local involvement if they're to invest themselves**

Enelamah argues that risk can be managed by operating in markets and sectors you understand, and with teams that are hands-on. When you do that, he says, you'll still get results. "Risk management is at the core of private equity," he says. "It's not an easy business to come into without getting to know the market and the players, and having legs on the ground that know the terrain. ACA is well-known in the region, with a good reputation. And it's our job to help educate investors in that regard, to help them become more comfortable and to tap the vast opportunities without making mistakes. We've been here 16 years, and we've always met our main responsibility – to manage returns for our investors."

Enelamah says that of the potential LPs who actually visit Nigeria, the conversion rate is very high – two out of three, if not three out of four, become converts. "It's better to come here and see it with your own eyes – the energy and dynamism of the people, and the attractiveness of the opportunities in terms of financing and growth opportunities – than to remain at a distance. Many investors want to have core private equity holdings in West Africa, having realised the market has developed while they weren't paying attention. We simply have to show people. That's how they fall in love with the place." ■

***Okechukwu (Okey) Enelamah** is the founder and CEO of African Capital Alliance*

CO-INVESTMENT

Dipping a toe

Africa is seeing greater demand from LPs for co-investment opportunities, just like more developed markets – though not always for the same reasons. Vicky Meek reports

It's been hard to ignore the clamour for co-investments in recent times, as fee-conscious investors have increasingly sought rights to this type of deal as early as the fundraising stage. While not all can actually push the button on these deals, as many as 73 percent of LPs claim to have now made co-investments alongside GPs, according to Preqin figures released earlier this year. Much of this capital has obviously been directed at more established private equity markets – but as investors become increasingly attracted to Africa's growth story, are LPs starting to look more closely at co-investments there, too?

"Africa has attracted a lot of interest from investors globally over the last 24 months," says Mani Saluja, co-head of Quilvest's emerging market programme. "Although the appeal and prospect of higher returns are clear, many foreign investors are still not yet sure of how exactly to access the market. As some gravitate towards learning about the market through committing to a traditional fund with a diversified blind pool [structure], many others are keen to gain exposure through a specific deal or [to] co-invest as a way to more actively control their exposure and risk. Either way, it is still proving somewhat difficult for many to pull the trigger, given the headlined perceived risks and the lack of deep understanding of the markets given [their] nascency."

The interest is there now. And as deal sizes get bigger in Africa, so the opportunities will become greater

Marie-France Mathes

Hibbert: *few LPs can actually execute*

Therein lies the problem: many LPs are still scratching their heads about how to gain exposure to a region about which they may have little knowledge or experience. And most of those that are already in the market are still building up exposure through fund investments. "There is still quite a steep learning curve for LPs," says Steve Costabile, global head of private funds at Pinebridge. "We are still seeing the foundations being built in terms of allocations in sub-Saharan Africa, and so most just aren't ready for co-investments."

EVOLUTION NOT REVOLUTION

That doesn't mean they aren't interested, however.

"As with any fundraising, when potential co-investments are mentioned for African funds, LPs usually all put their hands up," says Warren Hibbert, managing partner at Asante Capital, which has recently helped a Nigerian fund reach first close. "The issue is that in developed markets, you'll find that only between 10 percent and 15 percent of LPs are actually able to execute on co-investment opportunities. In Africa, that would only be in the single digits. So I think this type of investment is likely to see more of a gradual evolution than a revolution."

And while there are some larger deals completed in Africa, most tend to be at the smaller end, where additional LP capital may not be needed. Sarona Asset Management, for example, invests in funds in Africa that are raising $300 million or less. "We'd expect those GPs to invest in smaller deals – around the $25 million and below mark," explains Vivina Berla, senior partner at Sarona. "While, as a point of principle, we always ask for co-investment opportunities, the fact is that the deals are currently too small to warrant additional capital from us. I'd expect the deal sizes to go up as the market develops – and as that happens, co-investment opportunities are likely to follow."

Nevertheless, there are some opportunities already – and some LPs ready to take them up. One of the areas with the greatest potential for direct LP involvement is in infrastructure-related investments (see box-out for example). "There is a huge need for investment in this area," says Berla. "And while there are some large funds targeting this area, the opportunity is greater than the amount being raised for investment there. So this is where I'd expect to see most co-investments happening in the near to medium term."

DRAWING THEM IN

But it's not just larger deals that are attracting co-investments. While interest levels among LPs in African funds have been on the rise, the fundraising figures suggest there is still a gap between the level of interest and the actual amounts committed. In 2013, there was a 46 percent year-on-year fall in private equity fundraising in Africa, to $922 million, according to EMPEA figures – yet investment levels spiked to the highest seen in five years, at $1.6 billion.

"There is a mismatch between supply and demand," says Carlos Heneine, co-head of the emerging markets programme at Quilvest. "There may be a lot of hype about Africa, but there haven't been the level of successful fundraisings that might suggest. The deals are there, but the capital isn't yet."

The result is that GPs are now attempting to draw in LPs with co-investment opportunities during fundraising. "We are also seeing deals that cannot wait for the fund to close," adds Heneine. "So GPs are carving out pieces for LPs to allow them to move on these deals." (He says Quilvest is currently working on one such deal.)

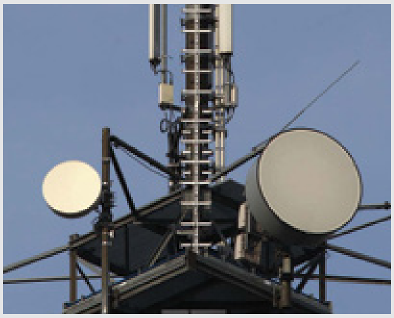
Hibbert adds: "There will be two deals in the Nigerian fund we're working with when we reach first close. One has been warehoused; the other has been opened up to a first close investor for co-investment alongside the fund, as it needed to be completed before the first close."

CALLING ALL LPS…

Telecom towers have been a popular area for private equity investment over the years as the need for improved communications across the continent has become ever more pressing. One such investment is IHS, a company ECP first invested into in 2011, alongside other investors like IFC and FMO. The company has since expanded rapidly: it now owns and manages over 10,500 towers, growing from Nigeria into other markets such as Cameroon, Zambia and Rwanda.

"[IHS] has grown rapidly and so has its need for growth capital," explains Marie-France Mathes, head of investor relations at ECP. It was the type of opportunity that Mathes had envisaged a few years ago when the firm started formalising its co-investment process. "We could see there was an increasing appetite among some of our LPs to gain greater access to the African market, to particular sectors and to gain direct investment experience."

Earlier this year, IHS raised an additional $550 million from existing investors such as ECP, but also some LPs. "The fundraising attracted a variety of investor types, from sovereign wealth funds and



IHS: *in need of capital*

family offices to international, blue-chip organisations," says Mathes. (The deal was, for instance, Wendel Investissement's first direct investment in Africa.)

What made this possible, she says, was ECP's formalised process. "It meant we could get investors over the hump – because not only were they investing alongside an established and experienced manager, but we made sure the due diligence was best in class."

And this is far from a one-off. ECP is currently helping portfolio company Oragroup raise further funding to expand regionally – and the firm expects to be able to offer other deals to LPs in the not-too-distant future.

So, while there are opportunities currently around, they are likely to have a limited appeal: to those LPs who have been in the market for some time and can therefore get comfortable with the potential risks; to strategic investors with strong knowledge of a particular sector looking to gain some insight into the African market; and perhaps to local investors. Indeed, local pension funds are estimated by EMPEA to have $29 billion potentially available to invest in private equity – and it seems logical that at least some of the capital will flow towards co-investment deals.

But these opportunities – and the level of LP experience – will build over time. "Co-investments will continue to increase over the coming years," says Marie-France Mathes, head of investor relations at ECP. "The interest is there now. And as deal sizes get bigger in Africa, so do the opportunities." ■

EXCHANGES

Taking stock

Recent listings suggest that African stock exchanges are becoming a more viable exit route for private equity, thanks to both local and international investors. By Dave Waller

When Arabian Cement listed on the Cairo stock exchange in May, it was the first company to do so since the Arab Spring of 2011. It seems the anticipation only stoked demand: the offering was more than 18 times oversubscribed by investors. The following month, cement maker Lafarge listed its Nigerian and South African businesses together on the Lagos stock exchange, with a combined market cap of $3 billion. African exchanges, it seems, are no longer too illiquid for big deals.

So should private equity now be viewing Africa's various exchanges – including the likes of Casablanca, Dar es Salaam, Johannesburg, Lagos and Tunisia – as a viable exit route?

The figures certainly suggest so. According to research by Ernst & Young, the nine IPOs on African exchanges in the first half of 2014 raised $808.5 million. That's substantially up on the $757.5 million raised in the whole of 2013, from a total of 18 IPOs. In 2012, 10 offerings raised a mere $342.6 million.

There are a couple of factors at work here, according to Bunmi Adeoye, investment officer at Lagos-based African Capital Alliance (ACA), which recently completed an oversubscribed $500 million dual listing of Seplat Petroleum in Lagos and London. "First there's the amount of local capital available, especially among local pension fund administrators. Latest figures show that the cumulative figure in Nigeria is greater than $25 billion, and most of this money has to be invested in Nigeria. Then there's the reduction in the yield from government bonds, making equities more attractive. So the local stock exchange is clearly a viable [exit] route for private equity firms."

Cairo Stock Exchange: back open for business

Emerging Capital Partners has listed seven portfolio companies on local exchanges – everything from telecoms to banks, agribusiness and FMCG. Late last year., for instance, ECP exited SAH, a Tunisian FMCG company, through a listing on the Tunisian stock exchange. It was the largest IPO in Tunisia, and the first by a private equity-backed company.

"Africa's macro story is looking very good, so consequently there's lots more money looking at Africa," says chief investment officer Andrew Brown. "There's growth in frontier funds managed out of places like London, and this is driving the development of these exchanges."

It helps if you can offer investors a different kind of exposure, he suggests. "Most of the companies on these exchanges are oil and gas, and banks. Our listing of SAH was successful because everyone is keen to get into emerging markets to play the consumer story."

But although a handful of larger exchanges – Egypt, South Africa and Morocco, for example – are beginning to operate like those in developed markets, many smaller exchanges still suffer a lack of liquidity, prohibiting exits at any real scale. Transaction costs can often be high, while governance standards may in some cases lack rigour (although here again, private equity should be able to mitigate risk through its due diligence work).

Other progress is being made too, not least a move towards larger regional exchanges. While the BRVM exchange in the Cote D'Ivoire has struggled for take-up, Morocco is now looking to expand its already successful domestic exchange and open it out to companies from the wider region. And there is an increasing appetite for dual listings. "The home listing brings political and regulatory benefits," says Brown. "And if the company is big enough to justify, say, a London listing, then that will deliver the liquidity that investors are looking for too."

Africa is learning. Its exchanges are growing – as is the general understanding of what public market investors really want. ■

INTEGRATION

Growing regional champions

Private equity has an important role to play in helping African companies expand beyond the borders of their home country, says Ann Wyman

Over the past decade, the African continent has been experiencing a dramatic increase in regional integration and intra-African trade. This has been driven in large part by the private sector, supported by both regulatory and policy initiatives. At the same time, many African companies have been expanding beyond the borders of their home countries to become regional champions. Private equity has, and will continue to have, an important role in funding this expansion, supporting companies with knowledge and experience to effectively access broader markets and improve competitiveness.

REGIONAL INTEGRATION

In recent years, many African companies that have become dominant in their local markets – especially ones based in smaller countries and economies –have also begun to seek to export to, or open operations in, neighboring countries exhibiting similar levels of demand. Company managers are increasingly recognising opportunities to form regional value chains and achieve economies of scale in production. The private sector has also led the increase in regional trade volumes, which has been of particular importance for African companies in light of a more uncertain global economy and the stagnation in the developed markets of both Europe and North America. And a new generation of well-educated managers, who have been more exposed to developed economies, is supporting this private sector push.

Wyman: *private sector has driven regional integration*

All of this private-sector-led effort has been buoyed by the implementation of regulatory and policy initiatives, as well as some select political efforts to sustain the continent's growth and stability and achieve long-term competitiveness. Indeed, many regional trade pacts have been signed over the past 10 years. Moreover, an increased emphasis on improving infrastructure has emerged as a priority for many governments, particularly to reduce cost and improve reliability of transport within the region. Finally, increased interdependence and cooperation among countries has resulted in greater transparency, coordinated economic policies, and improved fiscal management.

Several impediments remain, which some governments have been slow to address. Some sovereign governments have not seen it in their political interests to promote cross-border ties, despite the potential economic benefits. Moreover, restrictive exchange rate regimes and volatile exchange rates mean that exchange rate risk can inhibit cross border expansion. Non-transparent and cumbersome border administration, especially for imports/exports, the limited use of information communication technologies (ICT) and a still-meaningful infrastructure deficit are also factors that have inhibited regional integration.

AFRICAN COMPANIES STEP IN

Despite these challenges, a number of African companies have recognised the value of growing their businesses regionally. Regional expansion allows companies to access a larger customer base, as well as enabling them to take advantage of past experience, bringing it to new markets. This expansion is occurring in a range of industries, including FMCG, pharmaceuticals, ICT, financial services, health and education.

Private equity firms such as AfricInvest have targeted investing in this type of regional expansion for its high returns –both financially, and for the economic development of the continent. Moreover, the experience that private equity investors can bring, and their connections to markets in various countries, can provide considerable benefit to companies open to such a strategy.

The following are three examples of investments made in companies with regional expansion strategies that AfricInvest believes have the potential to become regional champions in their respective industries.

UAP (insurance)

AfricInvest has invested in UAP Holdings (UAP), which controls a number of insurance and related financial services businesses throughout East Africa. It comprises subsidiary insurance businesses for short and long-term insurance, property »

» investment companies, and an investment company that also provides stock brokerage services.

Key Investment Attributes

Compelling market dynamic: The East African Community (EAC) benefits from enhanced economic integration and regional growth opportunities. In addition, the EAC presents a substantial growth opportunity for insurance considering its low penetration in the region. With a growing middle class and higher disposable incomes, as well as further awareness of insurance, the market represents a strong environment for growth.

Clear potential for growth and regional expansion: AfricInvest had plans to accelerate the company's regional growth strategy through expansion into new markets (Tanzania, Rwanda and Democratic Republic of the Congo) and through the establishment of an asset management and a property development/management subsidiary to attract the required level of talent and professionalism. Furthermore, AfricInvest's existing portfolio companies in the insurance sector provided the manager with valuable experience and knowledge to assist in the expansion of networks and sharing of industry best practices.

Pre-identified operational improvement initiatives: The life insurance business was under-capitalised relative to regulatory requirements. The injection of capital is expected to bring it in compliance with regulations as well as allowing for the expansion and growth of the business. Furthermore, there was great value in consolidation of the existing businesses.

BRIDGE GROUP (banking)

AfricInvest has recently subscribed to a capital increase undertaken by the Bridge Group West Africa, the parent company of Bridge Group Cote d'Ivoire, taking advantage of an opportunity to invest in supporting the regional growth ambitions of a very professional banking group. The funds were used to partly finance the acquisition of a substantial minority stake in BNDE in Senegal as well as to work on the introduction of a number of innovative products and services in both countries.

Key investment attributes:

Compelling market dynamic: AfricInvest sees substantial growth and improvement potential in the banking sector of West Africa. The low penetration rate, especially in rural areas, of about 3-6 percent (depending on the country) should afford the company significant expansion opportunities. Moreover, the banking sector also has a dynamic regulator that has tightened regulation and supervision over time. The regulatory bodies have also improved their monitoring of the sector, leading to improving corporate governance standards.

Clear potential for regional expansion: The West African Economic Monetary Union possesses good overall liquidity reserve for the leading banks in the region, while banks with a smaller balance sheet (less than FCFA 100billion (~€150 million)) face insufficient liquidity. This could provide future opportunities for growth. Moreover, the region is notable for its absence of long term financing and resources and there is comfortable profitability, especially in Côte d'Ivoire, Senegal, Niger and Togo.

KIBOKO (FMCG & Pharmaceuticals)

AfricInvest also holds a stake in Kiboko Holdings Limited ("Kiboko"), a holding company consisting of eight entities, with operations in Uganda, Tanzania, Rwanda, Burundi and, more recently, in Kenya. Kiboko is active in the pharmaceutical industry through the manufacturing and distribution of pharmaceutical products, and in the general distribution industry for fast moving consumer goods (FMCG).

Kiboko presented AfricInvest with an opportunity to partner with a market leader to help them grow and expand regionally. Kiboko was already well respected in Uganda, being the sole distributor of Procter & Gamble products. The pharma manufacturing facility was the only one of its kind in Uganda and the second in the region, manufacturing lifesaving intravenous fluids and vials of water for injection and eye drops, which presented a huge growth opportunity by leveraging the company's existing distribution channels and established customer base.

Key Investment Attributes

Compelling market dynamic: This investment was an opportunity to meet the growing demand for healthcare, a severely underpenetrated market in East Africa, through Kiboko's pharmaceutical activities. The growing middle class and corresponding rising consumer demand are expected to drive the FMCG business.

Pre-identified operational improvement initiatives: AfricInvest saw an opportunity for restructuring as well as enhancing corporate governance. Kiboko also represented an opportunity to repeat a thesis from successful prior investments in other markets, including North Africa, in the pharmaceutical and FMCG sectors. AfricInvest possessed the unique skills, connections and industry knowledge to add significant value to Kiboko.

Clear potential for growth and regional expansion: AfricInvest helped Kiboko to launch operations in Tanzania, South Sudan and Kenya and is strengthening the Ugandan operations. AfricInvest plans to help reinforce the leadership position of Kiboko throughout the region by developing a wider range of products for its customers and accelerating market penetration. ■

Ann Wyman is a Senior Officer at Africinvest, responsible for client relations

RISK INSURANCE

Political premium

Political risk insurance is becoming a more widely accepted tool for large investors to manage risk in regions like Africa, writes Rebecca Akrofie

Predicting the future political stability of an emerging economy is clearly very difficult, even for the most cautious and well-informed investor. So as foreign direct investment levels increase in Africa, the concept of political risk insurance is growing in significance. According to a report by the Multilateral Investment Guarantee Agency (MIGA) last year, PRI issuance jumped to \$54.3 billion in the first half of 2013, having hit \$100 billion in 2012.

Perhaps the most notable example to date has been the \$350 million facility provided by MIGA in partnership with the Overseas Private Investment Corporation (OPIC), an independent US government agency, to the Silverlands Fund, managed by African agribusiness specialist SilverStreet Capital, in June this year.

MIGA and OPIC said their aim was to encourage private investment into emerging agriculture markets like Africa. And according to MIGA, which is currently underwriting a number of PRI products, interest from private equity groups and their portfolio companies is growing.

Mouen-Makoua: *PRI not a 'must-have'*

> **PRI offsets risks that the investor cannot control. However, policies are generally expensive and written with strict constraints**
>
> **Daniel Mouen-Makoua**

There are both private and public providers of PRI insurance. But MIGA says that its value-add comes from the fact that it's part of the World Bank Group – which means it has strong relationships with both governments and the private sector. "[MIGA] has access and therefore the potential to resolve [political risk] issues before they become [PRI] claims," explains Noureddin Ennaboulssi, a senior underwriter at MIGA. "As a development institution, our goal is to resolve these issues so that these projects continue to operate and contribute to the development impact of the host countries."

According to a 2008 OECD report, private PRI providers are less likely to provide political intermediation when a claim is made, which can help with the recovery of assets and the resolution of claims.

PRI does have its limitations, of course. "PRI offsets risks that the investor cannot control," says Daniel Mouen-Makoua, chief executive of Bwamanga Sustainable Investment Advisors. "However, policies are generally expensive and written with strict constraints imposed on the person insured. For farming, the policies will apply for specific regions only; and they may put constraints on the origin of the equipment the farm manager can purchase."

He believes PRI is not a 'must have' product when investing in Africa – and argues that a well-diversified portfolio can go a long way towards offsetting some of these risks.

Michelle Essomé, chief executive of the African Private Equity and Venture Capital Association agrees. "Lots of GPs successfully mitigate risk without PRI, and instead use their own networks and in-depth knowledge of the continent to navigate these situations. For example, they may prefer to invest in a company with pan-African operations, or given the nature of African growth capital investing, help the company to scale quickly to achieve a multi-country footprint. More importantly, pan-African investors achieve this diversification by definition."

However, Mouen-Makoua also notes that PRI policies do provide the kind of guarantee that may encourage more institutional investors to commit to the continent. "There are circumstances where using guarantees make it possible for large institutions to invest. This is in effect creating an investment product with significant upside, with its capital guaranteed."

In a recent survey, AVCA found that 19 percent of investors felt political risk was a barrier to investing in Africa. However, the association pointed out that this percentage is falling, particularly among African LPs; it's now considered less significant than a shortage of good GPs and the weakness of the exit environment.

As the number of experienced African GPs increases, and the political and economic stability of African countries improves, PRI will hopefully become less necessary. But until then, it can serve a useful de-risking function for large institutions. ■

AFRICAN LPs

Local partners

Local pension funds are becoming increasingly important players in the African private equity industry. Here, PEI's Research & Analytics team profiles five of the most significant

GOVERNMENT EMPLOYEES PENSION FUND (SOUTH AFRICA)

***Pretoria:** home to South Africa's government pension fund*

Established in May 1996 and based in Pretoria, South Africa's $95 billion Government Employees Pension Fund (GEPF) is a defined pension fund that manages the pensions of the South African Government. It currently has an allocation of about 4.4 percent to private equity, with a target of 3 percent to 9 percent, and employs Public Investment Commissioners (PIC) as its investment manager.

As of May 2014, the Government Employees Pension Fund has a mandate to increase investments in unlisted private equity and infrastructure over the next five years. There is particular appetite for driving investment in SMEs, particularly in the renewable energy sector, that benefit the development and sustainability of South Africa.

BOTSWANA PUBLIC OFFICERS PENSION FUND (BOTSWANA)

Established in 2001 and based in Gaborone, the $3.8 billion Botswana Public Officers Pensions Fund (BPOPF) is a defined contributory benefits plan providing retirement benefits for the employees of the public sector. It currently has an allocation of 14 percent to private equity, though it has said that it wants to increase this over time.

In July, BPOPF told *PEI* that it was embarking on an ambitious three-year strategy with a particular focus on investing in alternative assets in Botswana, particularly private equity and infrastructure (but probably not including venture capital, which it thinks is too risky). The investment consultant for the pension fund is Novare Equity Partners.

ESKOM PENSION AND PROVIDENT FUND (SOUTH AFRICA)

The Eskom Pension and Provident Fund, based in Bryanston in South Africa, is a defined benefit fund with employer and employee contributions that provide withdrawal, retirement and disability benefits to pensioners, members and dependents.

Last year, the Eskom pension fund made commitments of ZAR 460 million ($43.5 million; €32.5 million) in the private equity for 2013. As of December, its overall allocation to private equity was 1.16 percent of assets.

Eskom has committed to nine private equity funds, all focused on Africa, including ECP Africa Fund I, Venture Capital Technology Fund and Helios Investors II.

GOVERNMENT INSTITUTIONS PENSION FUND (NAMIBIA)

Founded in 1989, the Government Institutions Pension Fund (GIPF) is the Republic of Namibia's managed pension fund, with about $6 billion under management.

In April last year, the government of Namibia pushed for pension funds to invest in local private equity to help businesses access finance. The GPIF increased its allocation to unlisted equities, but has only been able to invest a fraction of its 10 percent target allocations; it says this is due to a lack of viable opportunities for investment and its own inexperience within the asset class.

In July, the pension fund invested N$1 billion ($94.5 billion) into the non-listed sectors of private equity, infrastructure development, procurement facilitation, rural electrification and mortgage financing.

SOCIAL SECURITY AND NATIONAL INSURANCE TRUST (GHANA)

Established in 1972 and based in Accra, Ghana's $923 million Social Security and National Insurance Trust (SSNIT) is a non-bank financial firm responsible for administering the country's national pension schemes.

The trust has committed capital into several private equity funds investing in Africa, including the Canada Investment Fund for Africa, ECP Africa Fund III, Jacana/Fidelity Fund and the Pan-Africa Infrastructure Development Fund. Private equity investments focus on Africa and are spread across a diversified range of sectors.

The SSNIT said in July that it is actively looking to make new commitments to private equity funds. ■

BRUNO DERIEUX, LINKLATERS

All change in OHADA

The OHADA zone, a group of countries in West and Central Africa, has just overhauled its corporate law regime, in a way that should facilitate external investment. Linklaters partner Bruno Derieux talks to PEI about the key changes

Q PEI: Why was a change deemed necessary?

BD: The new corporate legislation, which came into force on May 5, has been adopted within the framework of OHADA, the Organisation for Harmonisation of Business Law in Africa. This is a treaty-based arrangement between 17 (mostly francophone) member states of West and Central Africa; it enacts legislation through 'Uniform Acts' which are directly applicable in each member state. The previous Uniform Act on Companies dated from 1997; it required modernisation in certain aspects, and there were also uncertainties about the validity of certain mechanisms commonly used in other jurisdictions.

Q How familiar will the new regime feel?

The reform is largely inspired by French law, so it brings the member states' corporate legislation in line with international standards and practice. On the private equity front, investors will now be able to implement equity or management based structures that are familiar and have already been tested in various geographies. It also enables companies or funds that operate globally to put in place the same mechanisms or structures they use in other geographies. This should facilitate the transfer and development of people and product lines.

Q Which of the new measures is likely to have the greatest impact?

The creation of the 'SAS', a contractual limited liability company modelled on its French equivalent, constitutes a breakthrough in corporate structuring. It allows vast possibilities on governance arrangements and share transfer mechanisms. With the sole requirement that the SAS be represented by a Chairman, the shareholders can organise governance as they see fit in terms of structure and rules applying to governance bodies and shareholders' powers.

> ***The creation of the 'SAS' constitutes a breakthrough in corporate structuring***

OHADA: *making life easier for investors*

Share transfer restrictions are also freely determined and will be of use to tailor the capital of the companies to the shareholders' investment strategy in the context of joint ventures, consortia, minority interests and private equity.

Q Are there any other benefits?

The implementation of new preference shares available for the SA (the vehicle mostly used to date) is perhaps the other key development: it allows the creation of different categories of shares with different categories of preferential rights, whether political and/or economic, such as non-voting shares or shares with special rights to dividends.

There's also now an option to grant free shares to key managers and employees, a tool that is well known in the French market; this could enable companies to attract or incentivise certain directors and employees.

Q What has the reaction been to the new regime?

We already see a strong interest. For example, when Amethis Finance recently created a fund dedicated to French-speaking sub-Saharan Africa, it highlighted in the press release that this new corporate regime would facilitate its activities in the region. We're also acting on a number of joint venture transactions where the flexibility offered by the SAS is being used to structure the company. The issuance of preferred shares is being discussed on natural resource projects where the public sector is to be granted a minority shareholding. And the convertible bonds will bring new possibilities for the financing of OHADA companies, in particular through mezzanine and subordinated debt. All of this should facilitate the growth of private equity within the region. ■

Partner David Swinburne and managing associates Nicolas Le Guillou and Aymeric Voisin also contibuted to this article