

The African PE Industry – An Update

As PE funds continue to compete to be part of the African growth story, we are seeing a growing trend of increasing price expectations for relatively small assets throughout the continent and across a range of industries.

The African growth story is well rehearsed: the continent's economic growth continues, with a third of African countries growing more than 6% annually¹. This is coupled with mineral wealth, an increasing middle class population (expected to reach more than half a billion people by 2030)², improving political stability and rising urbanisation.

Unsurprisingly, throughout 2015, Africa continued to prove popular for domestic and international PE funds, alike, seeking attractive returns and to make their mark in Africa. Furthermore, domestic African PE funds and investment companies also made significant outbound investments abroad, such as the £682 million purchase by South Africa's Brait of an 80% stake in Virgin Active from the Virgin Group³.

Despite global turbulence, 2015 was considered a bumper year for African PE fundraising, with particularly standout closings for the Africa focused funds of Helios Investors (raising US\$1.1 billion)⁴ and Abraaj (raising US\$900 million)⁵. However, it was a more turbulent year in terms of the value of PE African investments. In comparison to 2014, it is estimated that the overall value of PE deals in Africa fell 69% to US\$2.5bn in 2015⁶. The African Private Equity and Venture Capital Association (**AVCA**), attributes this to a fall in the number of large deals valued above US\$250 million (however, the value of smaller deals in 2015 increased)⁷.

Competition remains rife for quality African assets of a scale that can support the current levels of capital raised by PE funds. Between 2010 and 2015, PE funds invested US\$21.6 billion in Africa in 823 deals⁸, with 63 of these deals reported in 2015⁹. Protea Asset Management and Midbrook Lane were the most active acquirers, with 8 acquisitions each in 2015¹⁰. Other notable PE deals in 2015 included Actis' US\$54 million acquisition of a minority stake in South Africa's Food Lover's Market, Helios Investors' 70% acquisition of Telkom Kenya from Orange, and Actis' US\$62 million majority acquisition of Nigeria's Sigma Pensions¹¹.

PE investment also continued to make its way throughout the continent, as PE funds focused on East and West African countries, including Nigeria, Ghana, Kenya and Ethiopia, as well as the traditional destination of South Africa. Attractive sectors for PE investment in 2015 included FMCG and retail, financial services, TMT (the Kenyan government for example aims to position the country as "Silicon Savannah" - Africa's technology hub) and real estate (including hotels).

Looking ahead, the focus for PE investment managers in 2016 will continue to be creativity and flexibility when seeking out African investments. Given the scarcity of larger African deals, investors should remain committed to finding smaller quality assets with development potential in fast-growing sectors throughout the continent. Opportunities for "bolting together" a series of smaller deals will be key. That being said, the current trend of large fund raises by Africa focused PE funds, is unlikely to dampen the pricing expectations for high quality assets.

Leila Belcarz is a Managing Associate in Addleshaw Goddard's London office
(leila.belcarz@addleshawgoddard.com)

-
- ¹ "NASD Plc Private Equity Conference 2015; Simplifying Private Equity Exits; Size dynamism of the PE industry and valuation issues in Africa", EY, Feb 2015.
 - ² "The Deloitte Consumer Review; Africa: A 21st Century View", Deloitte, 2014.
 - ³ "Virgin Active Sold to Billionaire Wiese as IPO Plan Scrapped", Bloomberg, 16 April 2015.
 - ⁴ " Helios Raises \$1.1 Billion for African Private Equity Investment", Bloomberg, 12 January 2015.
 - ⁵ "Abraaj raises nearly \$1bn for deals in Africa", E-Financial News, 26 January 2015.
 - ⁶ "African private equity investment slides 69%", Financial Times, 2 February 2016.
 - ⁷ "African private equity investment slides 69%", Financial Times, 2 February 2016.
 - ⁸ "Annual African Private Equity Data Tracker". AVCA, February 2016.
 - ⁹ "Private Equity Trends Jan – Dec 2015", KPMG.
 - ¹⁰ "Private Equity Trends Jan – Dec 2015", KPMG.
 - ¹¹ "Private Equity Trends Jan – Dec 2015", KPMG.

addleshawgoddard.com

Doha, Dubai, Hong Kong, Leeds, London, Manchester, Muscat, Singapore and Tokyo*

*a formal alliance with Hashidate Law Office

© 2016 Addleshaw Goddard LLP. All rights reserved. Extracts may be copied with prior permission and provided their source is acknowledged.

This document is for general information only. It is not legal advice and should not be acted or relied on as being so, accordingly Addleshaw Goddard disclaims any responsibility. It does not create a solicitor-client relationship between Addleshaw Goddard and any other person. Legal advice should be taken before applying any information in this document to any facts and circumstances.

Addleshaw Goddard is an international legal practice carried on by Addleshaw Goddard LLP (a limited liability partnership registered in England & Wales and authorised and regulated by the Solicitors Regulation Authority) and its affiliated undertakings. Addleshaw Goddard operates in the Dubai International Financial Centre through Addleshaw Goddard (Middle East) LLP (registered with and regulated by the DFSA), in the Qatar Financial Centre through Addleshaw Goddard (GCC) LLP (licensed by the QFCA), in Oman through Addleshaw Goddard (Middle East) LLP in association with Nasser Al Habsi & Saif Al Mamari Law Firm (licensed by the Oman Ministry of Justice) and in Hong Kong through Addleshaw Goddard (Hong Kong) LLP (a limited liability partnership registered in England & Wales and registered and regulated as a foreign law firm by the Law Society of Hong Kong, operating in Hong Kong as a Hong Kong limited liability partnership pursuant to the Legal Practitioners Ordinance) in association with Francis & Co. In Tokyo, legal services are offered through Addleshaw Goddard's formal alliance with Hashidate Law Office. A list of members/principals for each firm will be provided upon request.

The term partner refers to any individual who is a member of any Addleshaw Goddard entity or association or an employee or consultant with equivalent standing and qualifications.

If you prefer not to receive promotional material from us, please email us at unsubscribe@addleshawgoddard.com.