**How private equity investors create value**

EY and AVCA’s fourth annual survey analyses of the ways that private equity investors create and preserve value in the companies they own and operate in Africa.

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**Exit activity in Africa 2007–15**

**PE Exits in Africa hit record levels in 2015**

The number of exits by PE firms has continued to trend upwards. The number of exits by PE firms has continued to trend upwards, with East, North and Southern Africa (excluding South Africa) reporting an increased share of exits in 2014-15.

**The regional view**

<table>
<thead>
<tr>
<th>Region</th>
<th>2007-13</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Africa:</td>
<td>Exits: 11%</td>
<td>14%</td>
</tr>
<tr>
<td>West Africa:</td>
<td>Exits: 28%</td>
<td>16%</td>
</tr>
<tr>
<td>Central Africa:</td>
<td>Exits: 2%</td>
<td>0%</td>
</tr>
<tr>
<td>Southern Africa (excluding South Africa):</td>
<td>Exits: 7%</td>
<td>14%</td>
</tr>
<tr>
<td>South Africa:</td>
<td>Exits: 42%</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Number of PE houses exiting in a given year, 2007–15**

PE’s exit market continues to broaden and mature – the last two years have seen a marked increase in the number of PE firms in Africa that have reported exits.

**Top industries**

<table>
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<tr>
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<tbody>
<tr>
<td>Financials</td>
<td>24%</td>
<td>20%</td>
</tr>
<tr>
<td>Consumer goods and services</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Industrials</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Health care</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Retail</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Business services</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Construction and materials</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Power and utilities</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Technology</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>Telecom and media</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>Resources</td>
<td>1%</td>
<td>11%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>0%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Top countries for exits – 2014 and 2015**

Over the last two years, four countries have accounted for over two-thirds of PE exits.

- **South Africa**: 39%
- **Egypt**: 11%
- **Nigeria**: 10%
- **Kenya**: 10%
- **Other**: 30%

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**About this study**

The 2016 How private equity investors create value is presented by EY and AVCA. The study examines PE exits between 2007–15 using data drawn from both public sources and confidential, detailed interviews with former PE owners of exited businesses. Drawing from a population of 302 exits occurring in Africa over the study period, the research provides detailed insights from a sample of 137 exits. The exits had a minimum entry enterprise value of US$1m and included only full (not partial) exits. Our analysis entails an examination of the decision to invest, value creation during PE ownership, exit strategies and key lessons learned during the process. Our aim is to produce an analysis that will help enhance the understanding of exit modalities and strategies in African markets and the underlying drivers of value creation. Our most sincere thanks to the firms that participated, without whom the study would not be possible.
PE continues to outperform public markets

**PE returns relative to the public markets, 2007-15**

Despite recent macro volatility, PE firms continue to deliver value-add over public market returns via strategic and operational improvements. The outperformance over public markets increased for exits in 2014 and 2015.

![Diagram showing relative performance of exits by region, 2007-2015](image)

**Exchange rates take a bite out of returns**

Currency declines versus the USD have taken a bite out of non-local denominated returns.

<table>
<thead>
<tr>
<th>2007-13</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>-3.5%</td>
<td>-22.6%</td>
</tr>
</tbody>
</table>

**Hold periods exceed six years in 2015**

As macro uncertainty has increased, PE firms have held onto their investments for longer, waiting for the right opportunity to exit.

![Diagram showing hold periods exceeding six years in 2015](image)

**Relative performance of exits by region, 2007-2015**

While exits across all regions noted positive performance relative to public markets, variations continue to exist across Africa. Exits in East Africa posted the strongest returns over the study period, returning two times an equivalent hypothetical investment in the MSCI Emerging Markets Index assuming the same period as the PE firms’ investments occurred.

- **North Africa:** 1.6x
- **West Africa:** 1.5x
- **South Africa:** 1.5x
- **East Africa:** 2.0x
- **Southern Africa (excluding South Africa):** 1.9x

Central Africa is excluded due to an insufficient sample size. Relative performance to MSCI EM Index is on a pure average without any weighting for investment size. Comparisons versus MSCI Emerging Markets Total Return Index.
PE firms in Africa continue to expand their toolkit

PE firms in Africa continue to expand their toolkit, creating value from new sources and with new competencies. At the same time, the private equity ecosystem in which firms are operating continues to mature, offering new opportunities for exits.

Key themes

1. **PE firms shift toward a more balanced approach to value creation**
   PE firms have diversified their approaches to creating value. While exits in 2013 and prior were characterized by a heavy emphasis on organic revenue growth to drive returns, exits over the last two years have seen PE firms pull additional value creation levers, including cost reduction and M&A.

   Percentage of deals where value drivers represented a significant component
   - 2007–13
     - Organic revenue growth: 76%
     - Cost reduction: 24%
     - M&A: 16%
     - Disposals: 2%
   - 2014–15
     - Organic revenue growth: 83%
     - Cost reduction: 41%
     - M&A: 34%
     - Disposals: 21%

2. **Geographic expansion an increasingly important driver**
   While geographic expansion has always been an important component to value creation in Africa, the last several years have seen PE firms focus increasingly on helping their portfolio companies to expand geographically.

   Percentage of deals where geographic expansion was a key driver of growth
   - 2007–13: 31%
   - 2014–15: 75%

3. **PE firms increasingly bringing in new management**
   PE firms in Africa are increasingly bringing in new management to supplement the skill sets of family owners and entrepreneurs. In exits achieved over the last two years, over 40% had management teams with new managers brought on by the PE firm.

   Percentage of deals where PE firms brought in new management
   - 2007–13: 20%
   - 2014–15: 42%

4. **Access to PE firms’ networks remains critical**
   Access to a PE firm’s network – in the form of assistance with M&A, introductions to industry specialists, suppliers and customers – remains an important value driver for African portfolio companies.

   Percentage of deals where access to a PE firms’ networks was a key driver of value creation
   - 2007–13: 42%
   - 2014–15: 66%

5. **Increasing competition shortening the sourcing cycle**
   With increasing competition for deals across the region, many PE firms are shortening the period of time between their initial look at a company and their investment.

   Time between initial approach and investment — pre-2008 and post-2008 entry
   - Pre-2008: Start of the formal process: 4, Under six months: 2, Six months–one year: 4
   - Post-2008: Start of the formal process: 4, Under six months: 6, Six months–one year: 1
Sales to financial buyers in Africa becoming increasingly important as the region’s PE ecosystem matures

To whom are PE firms selling?
While trade sales still account for the majority of PE exits in Africa, PE firms and other financial buyers have evolved into important buyers of PE assets.

![Bar chart showing trade sales, PE and other financial buyers, MBOs or private sales from 2007-13 to 2014-15]

Where are PE and other financial buyers located?
When it comes to sales to PE firms and other financial buyers, PE firms are selling to a mix of local, regional and multinational firms. Regional buyers accounted for approximately 36% of deals where the buyer was a financial sponsor in 2014-15, while multinationals accounted for 43%.

Local: 21%, Regional: 36%, Multinational: 43%

Returns consistent with trade sales
Contrary to popular perception, sales to PE buyers did not underperform sales to trade buyers, but performed on par with sales to strategics.

Looking forward

Where to invest next
PE firms see financial services, consumer products and retail and education as some of the most interesting sectors.

What are the biggest challenges in investing in Africa?

What we heard
- Valuations trending upwards
- An underdeveloped intermediary landscape
- Currency fluctuations adding a dimension of difficulty
- The macro environment

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