Cytonn Weekly #38/2018

Private Equity

The African Private Equity and Venture Capital Association (AVCA) and PwC released a report on private equity-backed IPOs (exit of private equity firms from companies through means of an Initial Public Offer) in the African region. This study spanned a period of 8-years from 2010 to 2017, and sought to analyse the growing trend of companies that have had PE backed IPOs.

In the period from 2010 to 2017, there was a total of 187 IPOs, with 28 in 2017, a 17.0% increase from the 24 IPOs in 2016. However, most IPOs in the region have been non-private equity backed, with private equity backed IPOs over the period constituting 14.3% of total IPOs, compared to an average of 39.0% and 36.0% for the United States and the United Kingdom, respectively. The Johannesburg Stock Exchange tied with the Bourse de Tunis in Tunisia in terms of number of IPO exits for PE firms, each having 9 PE backed IPOs over the period, followed by the Bourse de Casablanca in Morocco, which had 4 PE-backed IPOs over the period.

Below is the summary of the top 5 bourses that had PE backed IPOs over the course of the study. The Nairobi Securities Exchange did not have any PE backed IPO over this period:

Top 5 Exchanges for PE-Backed IPOs (2010 to 2017)

Exchange	Country	Number of PE-backed IPOs	Percentage of Total Proceeds
Johannesburg Stock Exchange (JSE)	South Africa	9	58.8%
London Stock Exchange (LSE)	United Kingdom	2	18.9%
The Egyptian Exchange(EGX)	Egypt	2	9.7%
Bourse de Casablanca	Morocco	4	6.4%
Bourse de Tunis	Tunisia	9	6.2%

Source: AVCA

In terms of total proceeds raised from these IPOs, the Johannesburg Stock Exchange (JSE) led with 58.8% of the total proceeds raised, followed by the London Stock Exchange (LSE), with 18.9% of the total proceeds. This affinity towards the JSE for PE backed exits can be attributed to the investor confidence in the market given the reputation of South Africa as an investment hub for the region. The LSE has been actively working to ensure that more African companies list on the LSE, with efforts to ease the process, as well as partnering with African bourses to have companies achieve parallel listings locally and on the LSE.

JSE still led the pack, with three out of the top five IPO backed companies in terms of capital raised having listed on the JSE, with 58.8% of the total proceeds being raised between the 9 companies that were listed, as summarised below:

Top 5 PE Backed IPOs by Value (2010 to 2017)

Company	Exchange	IPO Date	Proceeds Raised (USD mn)	Financial Sponsor(s)	Stake Owned	Date of PE Investment	Initial Amount Invested by PE Firm (USD mn)
Life Healthcare	JSE	Jun-10	681.0	Mvelaphanda Group, Brimstone	26.7%	2005	Undisclosed
Alexander Forbes	JSE	Jul-14	348.0	Actis, Ethos Private Equity, Harbourvest Partners	70.0%	2007	Undisclosed
Integrated Diagnostics Holdings	LSE	May-15	334.0	Abraaj	Undisclosed	2008	Undisclosed
AYO Technology Solutions	JSE	Dec-17	328.0	AEEI	80.0%	2009	Undisclosed
EditaFood Industries	EGX & LSE	Apr-15	267.0	Actis	30.0%	2013	102.0

Source: AVCA

The consumer goods and the financial services industries boasted the greatest number of PE- backed IPOs, with each having 7 out of 32 PE-backed IPOs. These sectors raised a total of USD 544.0 mn and USD 468.0 mn, respectively. In terms of the proceeds raised, healthcare led with USD 1.1 bn of proceeds raised, followed by consumer goods, which had USD 521.1 mn of proceeds raised. Financial services came in third, accounting for 16.0% of the proceeds raised. This is largely due to the huge growth in the financial services industry in Africa, and the high opportunities for growth in this sector driven by (i) inherent increase in consumption expenditure and a rise in the percentage of the population requiring financial services, (ii) low financial inclusion which presents ample runway for growth, and (iii) incorporation of technology to improve efficiency in operations and increase coverage.

PE-backed IPOs by Sector (2010 - 2017)

Industry	Total Number of PE-Backed IPOs	Percentage of IPOs	Value of Proceeds Raised (USD mn)	Percentage of Proceeds Raised
Healthcare	7	23.0%	1,100.0	38.0%
Consumer goods	7	23.0%	521.1	18.0%
Financials	6	17.0%	463.2	16.0%
Technology	5	14.0%	318.4	11.0%
Basic Materials	3	10.0%	260.5	9.0%
Industrials	2	7.0%	115.8	4.0%
Consumer Services	1	3.0%	60.8	2.1%
Utilities	1	3.0%	55.0	1.9%

PE-backed IPOs by Sector (2010 - 2017)

Industry	Total Number of PE-Backed IPOs	Percentage of IPOs	Value of Proceeds Raised (USD mn)	Percentage of Proceeds Raised
Total	**32**		**2,894.7**	

Source: AVCA

One of the most notable IPOs was in 2014, by Alexander Forbes, with the exit of PE Firms Actis, Harbourvest Partners and Ethos Private Equity from the fund manager, who collectively owned 70.0% of Alexander Forbes. Alexander Forbes had initially gone private after it was bought by Actis in 2007. Another notable PE backed IPO was the exit of Helios from Vivo through a dual-listing on the LSE and the JSE, being the first PE exit via an IPO on both the LSE and the JSE.

In our view, the performance of the private equity sector in terms of exits points to growing volumes in the proceeds gained by exit through IPOs, with USD 370.0 mn being raised in 2017 compared to USD 125.0 mn in 2016. However, the number of IPO exits still remain low, at 4 in 2017, compared to 24 non-PE backed IPOs in 2017. We expect this trend of PE firms exiting by way of IPOs to remain considerably low given the tedious procedures involved in a company going the IPO way. A shift in this trend is only achievable if there is an improvement in the local capital markets by putting in place measures that will (i) encourage firms to list, and (ii) improve investors' participation in IPOs. This can be done by: (i) making the process of companies going public by means of an IPO easier, (ii) encouraging disclosures for non-listed companies in order to improve transparency and accessibility of information, which boosts investor confidence, making it easier for firms to raise capital during IPOs, and (iii) encouraging foreign participation through improved regulation, good economic fundamentals and empowering private initiatives.

Private equity investments in Africa remains robust as evidenced by the increasing investor interest, which is attributed to; (i) rapid urbanization of 4.1% p.a compared to 2.0% p.a globally, (ii) a resilient and adapting middle class and increased consumerism, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (iv) better economic projections in Sub Sahara Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Sahara Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.