The Insolvency Act - A Second Chance for Struggling But Viable Businesses, & Cytonn Weekly #50/2018

Private Equity

Actis, a leading investor in growth markets across Africa, Asia and Latin America, has announced the sale of Compuscan, a South African provider of credit information in emerging markets and ScoreSharp, a South African decision analytics company, to Experian, a global credit information services firm headquartered in Dublin, Ireland, for approximately USD 257.6 mn subject to approval by the Competition Commission of South Africa. Compuscan was established in 1994 as a credit bureau focused on helping micro-lenders to avoid financial loss by identifying clients' repayment probability prior to processing of loans. The credit bureau, Compuscan, merged with ScoreSharp in 2011 to operate as a dual company. Actis through a special purpose vehicle, Credit Services Holdings (CSH), acquired a majority shareholding of 60% in Compuscan and ScoreSharp in 2014 with the aim of expanding the product offering, enhancing the firms' scale of business, and creation of a dominant emerging market credit bureau. Following the acquisition in 2014, CSH injected an additional USD 100.0 mn for expansion purposes making Compuscan a full-service credit bureau and information services provider offering credit information services, marketing services, decision analytics services as well as loyalty and rewards services across seven African countries (South Africa, Lesotho, Botswana, Namibia, Ethiopia and Uganda), Philippines and Australia.

This transaction highlights recognition of untapped potential in credit and credit related industries in Africa. Data from the World Bank's Global Financial Development Report 2017/2018 shows that credit extension lags in Africa compared to other world regions by a significant margin noting that the ratio of credit extension to GDP is only 18.0% in Sub-Saharan Africa compared to 37.0% in South Asia and 47.0% in Latin America. Credit extension firms, bureaus as well as policy makers in Sub-Saharan Africa therefore have a major role to play in strengthening credit markets in the region and enhance financial inclusivity and investors are keen to be part of this process.

The transaction is also in line with the trend of increased private equity exits in Africa. According to the 2018 survey by Earnest & Young (EY) and Africa Private Equity and Venture Capital Association (AVCA), the number of annual PE exits in Africa have steadily increased from 30 in 2011 to peak at 50 in 2016. Despite challenging exit environments in key African markets in 2017 (with elevated political uncertainty and a weak economic environment in South Africa, and continuing Nigerian currency challenges), PE activity remained resilient recording 49 exits, only slightly below the peak in 2016 (50 exits). Looking forward, we expect to see investment in the Fintech, Education, Consumer Products and services, and Energy sectors.

Despite the recent slowdown in growth, we maintain a positive outlook on private equity investments in Africa as evidenced by the increasing investor interest, which is attributed to; (i) Economic growth, which is projected to improve in Africa's most developed PE markets, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to

its public markets, and, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets. Going forward, the increasing investor interest, stable macro-economic and political environment will continue to boost deal flow into African markets.

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