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Private Equity

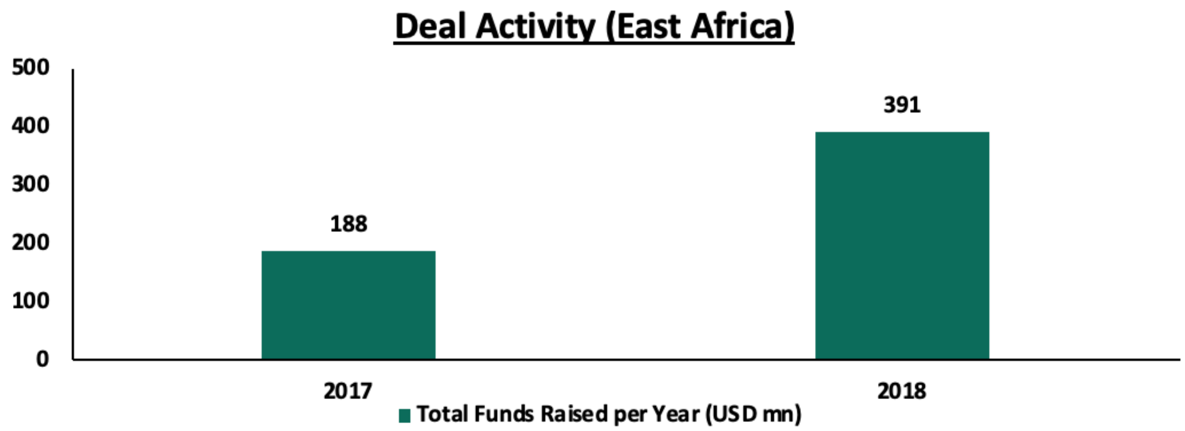
KPMG East Africa and East Africa Venture Capital Association (EAVCA) released a joint report, Private Equity Sector Survey of East Africa, a report that looks into the private equity market over the period spanning 2017 and 2018, with a keen focus on the shift in trends in the private equity space since 2016.
Some of the key highlights are below:

Fundraising

East Africa's private equity landscape witnessed an improvement in deal activity in 2017 and 2018, with 33 and 51 deals disclosed, respectively. Over this period, the number of PE funds investing in East Africa increased to 97 up from 72 recorded in a similar study conducted between 2015 and 2016, as shown below,

	2017-2018	2015-2016
Number of Investments	84	36
Number of Funds	97	72

In terms of fundraising, East Africa-focused private equity funds raised USD 579.0 mn (Kshs 59.6 bn), which was a significant drop from the USD 1.1 bn (Kshs 113.1 bn) that was raised between 2015 and 2016. This drop was quite different from what was witnessed globally, whereby funds raised grew by 25% to USD 1.1 tn (Kshs 164.8 tn). The strain in capital raising in the region can be attributed to the improvement in economic conditions in Asia, Southern Africa and Northern Africa, with most investors preferring to channel funds to these regions that are considered safer, given the longer track record in delivering returns to investors. The drop in funds raised by East African firms has closely mirrored that of the entire continent, with funds raised by Africa-focused funds dropping from USD 6.0 bn (Kshs 618.1 bn) in the 2015-2016 period to USD 5.1 bn (Kshs 525.4 bn) in 2017-2018.



Development Finance Institutions (DFI's) and High Net Worth individuals/family offices emerged the most common sources of funds according to the report, accounting for 52% of the total funds raised in 2017 and 2018. Alternative asset managers and international and local pension funds collectively contributed to 34% of the funds raised.

Entry

Of the total 84 deals reported by the PE sector in East Africa, Kenya led, having 61 deals. Of these 61, the top two sectors were financial services, with 15 deals, and energy and natural resources with 9. Kenya recorded diverse investments with most sectors represented. This was a significant growth, compared to the 22 reported deals in 2015 and 2016. This growth was majorly driven by the Financial Services and Fintech sectors, which have grown rapidly within the country, with the fast-mobile penetration as well as development of supporting infrastructure for the financial services sector. Uganda was the second preferred geography by investors, with Ethiopia coming in third. The financial services sector recorded the largest share of deals in the region with 16 deals recorded in 2017-2018, with agribusiness coming in a close second, recording 14 deals.

In terms of value, Kenya led the pack, with an estimated USD 1.2 bn (Kshs 123.6 bn) of activities, compared to the total value of deals in the region, estimated at USD 1.4 bn (Kshs 144.2 bn). This large proportion of the share can be attributed not only to the number of deals in Kenya, but also to the relatively larger size of individual deals. In terms of sectoral contribution, energy, financial services and healthcare had the largest contribution, with over USD 1.0 bn (Kshs 103.1 bn) invested over the period of review.

Exits

There were 10 exits reported over the period of review, compared to 13 recorded in the period 2015 - 2016. Some of the notable exits included the sale of the 24.9 per cent stake held in Equity Bank by Helios Investment Partners in 2015 to long-term investors who included Norfund and NorFinance, NSSF Kenya, NSSF Uganda and Genesis Investment LLP. Exits in the region remain sparse as funds hold their investments for a longer period, as shown in the table below:

	2017-2018	Total (2007-2018)
Number of Investments	84	190
Number of Exits	10	44
Rate of Exit	11.9%	23.2%

Source: Survey, Private Equity Africa, Thomson Reuters

While there seems to be a slowdown in exits over 2017 to 2018, collectively over 2007 to 2018 there have been 44 exits versus 190 investments resulting in a 23% rate of exit.

Of the 10 exits in 2017 and 2018, 2 were through an IPO, with the most notable being 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, as well as 5 exits to strategic investors and 3 to financial investors. Of the 44 exits reported by the respondents, 17 are in financial services, 6 in healthcare, and 4 in agribusiness and manufacturing. 18 exits were made via sale to strategic investors followed by 11 share buy backs. Sale to financial investors, listing and others accounted for 15 of the total 44 exits over the period 2007 - 2018. Sale to a strategic investor remains the most preferred route of exit at 37%.

There has also been an increase in supporting framework, with the average number of investment professionals across the PE funds having increased from 1 to 5 between 2007 to 2014, and 5 to 20 from 2015 to 2018.

Private equity investments in Africa remain robust as evidenced by the increasing investor interest, which is attributed to; (i) rapid urbanization, 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.
