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BRIGHT AFRICA – NEW REPORT

CAPE TOWN – A new report, **Bright Africa**, (<http://brightafrica.riscura.com/>) provides a uniquely comprehensive look at transaction multiples across the continent.

With investors from around the world looking for growth in a post-financial crisis world, the **Bright Africa** report demonstrates that to fully participate in the African growth story, investors need exposure to both private and listed equity. And the good news is that, on average, private equity deal multiples across all sizes of businesses are 12% lower than the global average.

Compiled by RisCura Fundamentals, Africa's leading provider of independent valuation services, the report covers the areas of Africa showing growth and compares this growth to other emerging markets. For example, over the last three years, Niger has enjoyed a 10% growth in GDP; Zambia, Chad, Zimbabwe and Mozambique have seen 9%; the Democratic Republic of Congo 8% and Libya 7%. GDP growth in Africa has averaged around 5% for each of the last three years. *(For the full list of figures refer to <http://brightafrica.riscura.com/>).*

This resulted in nominal GDP in 2012 of approximately US\$2trn, roughly equivalent to the GDP of Italy and slightly above those of India and Russia respectively. On a purchasing power parity basis, this jumps to \$3.3bn, approximately equivalent to Germany's GDP on this basis.

Individual African markets remain small in comparison to the large emerging markets making up the BRICs. However, when aggregated, Africa's place alongside these fast-developing large countries is better understood. While the individual African economies are certainly not homogenous, grouping the 54 individual countries is useful for comparative purposes to some of the world's large, fast-growing countries.

Africa's GDP grew by an impressive 57% on a purchasing power parity basis (PPP) between 2005 and 2012, slightly ahead of Brazil and Russia at approximately 50%, but behind China and India which doubled the size of their economies over this period. In contrast, the US and Japan, two of the world's most developed economies, grew only around 20% over this period and consequently lost a significant share of global GDP.

The **Bright Africa** report also compares listed and private equity market and transaction multiples by looking at the ratio of the total value of an enterprise (EV) to its operating profit, proxied by EBITDA.*

"While this ratio is more commonly used in private rather than listed equity analysis, it applies across both asset classes, providing a way to compare them," says Rory Ord, Head of RisCura Fundamentals.

The report highlights the challenges of listed equity markets in Africa, in particular the fact that, apart from South Africa, the majority of African stock exchanges do not closely represent the economic sectors that contribute to their countries' GDPs.

For example, Africa's second largest economy and stock exchange, Egypt, shows an obvious skew towards financials, which account for 29% of the exchange compared to the contribution of 7% this sector makes to GDP.

In Kenya and Nigeria, this disconnect between sectors making up GDP and the stock market sector composition is more pronounced. Financials, and banks in particular, dominate these exchanges yet they remain small components of the real economy. In many cases the main drivers of GDP are barely present on the listed market. In Nigeria, the energy sector makes up 40% of the country's annual GDP, but is not a significant component of the listed market.

"Ultimately, this demonstrates that broad exposure to the African growth story cannot be fully accessed without considering private equity," says Ord. "While private equity has its own shortcomings, it has the great advantage of being able to access companies outside of the narrow confines of listed markets."

Despite its relatively early stage, African private equity has been growing and a strong core of practitioners has emerged capable of managing institutional capital on the continent. The *Bright Africa* report analyses 158 private equity deals collected by RisCura Fundamentals as part of its work with African private equity funds.

Based on the deals in the RisCura Fundamentals database, the report shows that private equity deals in Africa are taking place at lower multiples than deals globally, across all deal sizes. However, deal multiples in Africa outside of South Africa are, on average, higher than South African deal multiples. Further, private equity deal multiples in African private equity are generally lower than listed market multiples.

There are also much lower levels of debt in African PE transactions than is the case globally. African deals on average use only half the levels of debt compared to global private equity, and only a third of the debt used in an average US private equity deal.

Focusing on listed multiples, the report shows that, on average, companies operating in Africa trade at a similar EV/EBITDA multiple to developed market companies at around 8x. "This appears to be a result of the trade-off of a higher risk perception balanced by greater growth prospects in African markets," says Ord.

On the other hand, an analysis of the number of private equity deals falling into deal multiple groupings shows interesting results when compared to global private equity deals. Almost half of global deals take place in the 5–7.5x EV/EBITDA grouping, and a quarter in the greater than 7.5x grouping, leaving only 20% happening at below 5x.

In contrast, African PE deals predominantly take place in two groupings namely 2.5–5x and above 7.5x. This leaves only 20% of deals taking place in the bucket where almost half of global deals take place.

"One reason for this appears to be the number of high-growth, medium-sized companies that fall into the 7.5x category, to add to the leverage buy-out transactions already in this category," Ord says.

Many more deals happen at lower multiples in Africa than is the case globally, which may be a result of the higher risk assessment of investing on the continent and the higher required rate of return.

In conclusion, Ord says that in practice investors use a combination of listed and private equity investments to fill their African equity allocations. “This is expected to continue for the foreseeable future as an effective way to gain exposure to Africa’s growth potential.”

**Earnings before interest, tax, depreciation and amortisation*

ENDS

ABOUT RISCURA

RisCura is a global, independent financial analytics provider, transition and investment consultant. RisCura services institutional investors with over \$200billion in assets under management, as well as a significant number of asset management, hedge fund and private equity firms. RisCura Fundamentals is a leading provider of independent valuation, risk and performance analysis services to investors. For more information about RisCura visit, www.riscura.com

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