

Press Release

16 March 2022

RisCura's New Bright Africa Research shows three main shifts that continue to shape the Strong Private Equity Growth Trend

RisCura, a global investment firm, today launched the results of its latest “Bright Africa” research* which suggests, with high economic growth and significant tailwinds for long-term investment, balanced against elevated medium-term risk, a lasting, long-term upward growth trend in private equity (PE) investment on the continent over the last decade is likely to continue with three main shifts shaping the PE landscape.

Heleen Goussard, Head of Alternative Investment Services at RisCura, commented: “Interpreting the changes that take place in PE prices over time isn’t straightforward as many of the drivers are unobservable. However, there are three noticeable shifts in the marketplace that prove how PE is performing: more deals/smaller transactions, “dry powder” and tech capabilities.”

Three shifts:

More deals, smaller transactions

PE prices have dipped below those of listed companies, but deal activity is growing significantly. In 2021, notwithstanding tough market conditions and sentiment, deal activity reached new highs, albeit at lower transaction values.

Despite erratic fundraising and volatile risk and growth conditions, exemplified by current global geo-political events such as the Russia-Ukraine war, long-term market trends in African private equity have remained constant. Bright Africa research shows that the significant amount of committed capital has had a stabilising effect on pricing, which survived short-term changes in funding levels and risk profile.

Total private equity transaction activity steadily increased by 20% from June 2018 to June 2019, then tapered to a 9% increase from June 2019 to June 2020. Transaction activity then rebounded strongly, resulting in a 19% increase from June 2020 to June 2021. The average transaction value in our database between 2016 and 2019 was USD40.44 m, whereas between 2020 and 2021 it shrunk to USD11.1 m.

Dry powder could power up pricing

Dry powder is the amount of committed but unallocated capital a firm has on hand. Using fundraising data and the average deployment period, RisCura estimates the dry powder of the African PE industry to have averaged around USD8.51 bn until 2018, reaching recent highs of USD9.56 bn in 2019, last achieved in 2016. Dry powder levels declined to about USD6.5 bn by June last year due to investment funds continuing to draw on committed capital – to invest in new businesses and support existing investments through the pandemic – without the corresponding flow of commitments from Limited Partners, third party investors of PE funds, through fundraising. This reduction should contribute significantly to stabilising private equity pricing going forward.

The committed capital model, however, can only delay the efficiency of markets. Prolonged decreases in fundraising and risk outlook are filtering through to pricing but there is hope for a recovery as the post-pandemic economic slowdown improves. In the interim, firms are grappling with how to deploy funds and manage the impact on returns.

Sector investment shifts to tech-capabilities

The Covid-19 pandemic has of course impacted PE. Key sectors for investment include healthcare, pharmaceuticals, IT and education, and tech-enabled businesses are gaining traction.

Consumer products have historically been a PE focus due to the perception of the growing African middle class, but investment into consumer staples has decreased by 38%. Investment activity in the consumer discretionary sector remained stable over the year but investor interest has moved towards internet and direct marketing retail, education, communication services, and publishing. This shows a possible shift from targeting a broader target market with lower income to a smaller market with a higher income.

Internet and direct marketing retail companies, classified as a subsector of the consumer discretionary sector, have experienced 63% growth. The global pandemic has accelerated E-commerce in many parts of the world, which could present substantial opportunities. Africa's large and growing young population is expected to continue to drive demand for online retail and services.

Realising Africa's potential for enormous growth and innovation, given its young population and vast natural resources, requires considerable investment into economic reform, education, healthcare, and digital skills development. Africa's rapid urbanisation and technology uptake so far, are factors that support long-term growth on the continent, and RisCura expects this to be reflected in PE deal activity to come.

Goussard concluded: "Africa remains an attractive investment destination, but requires enhanced economic reforms, good governance, and a stable political landscape to continue

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attracting PE fundraising and entrepreneurs. Addressing these factors will play a pivotal role in the development of the continent, including attracting vital private investment to accelerate progress.”

BRIGHT AFRICA 2021 – PRIVATE EQUITY

Download the full research here: <https://brightafrica.riscura.com/private-equity/>

* RisCura’s Bright Africa research initiative, established in 2013, looks at unravelling some of the myths surrounding investing in Africa and educating potential Investors on what they need to understand in order to establish whether Africa has a place in their portfolios, and if so, how they will access what the continent has to offer.

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Notes to Editors

About RisCura

RisCura is a purpose-driven investment firm that offers investors unique insights, guidance, and investments, whilst still achieving financial goals and delivering exceptional performance for its clients. A global leader in emerging and frontier markets, RisCura is known for its investment expertise and offers services to asset owners, investment managers and service providers across the industry. Through constantly exploring new ways to invest with care and meet the needs of clients, RisCura has helped to bring about impactful investment opportunities in the markets we operate in.

RisCura has won numerous industry awards. The firm has a footprint in South Africa, the United Kingdom, China, Hong Kong, Botswana, Kenya, Mauritius, Namibia, Nigeria, Zambia, the US and Ireland.

For more information about its investment services and approach, visit the RisCura website: www.riscura.com

Media contacts

For all media enquiries please contact KBPR using the details below:

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Kate Boyle
07930 442883 | kate@kbpr.agency