Doing Deals in Sub-Saharan Africa

Key insights from dealmakers

October 2023

Foreword

Sub-Saharan Africa (SSA) continues to present a significant opportunity for investors. The region's demographics and significant headroom for economic development are among the factors which will continue to spur growth over the coming years. Investors that take medium-to-long-term positions in the region with careful asset exposure are primed to potentially reap better long-term returns.

However, recent global and regional trends have posed challenges to investment opportunities in SSA. Tighter monetary policies and interest rate hikes in developed economies have minimised capital inflows into the region, resulting in massive currency devaluations and default in the international bond market, as seen in Ghana.

Expensive market-based funding and declining aid budgets have led to a rise in the interest burden on public debt. Approximately half of SSA countries are grappling with double-digit inflation, which negatively impacts household purchasing power and disproportionately affects the most vulnerable populations. Growth is moderating amid these challenging conditions.

Our motivation for this publication is to highlight the investment opportunities in the region, the attractive and high potential markets, and how investors are prioritising risk management strategies, including the need for local transaction advisers in the respective markets to mitigate potential downside. Above all, we sought to understand, and share, how investors are strategically approaching this region, which, despite its recent challenges, offers strong potential for superior risk-adjusted returns.

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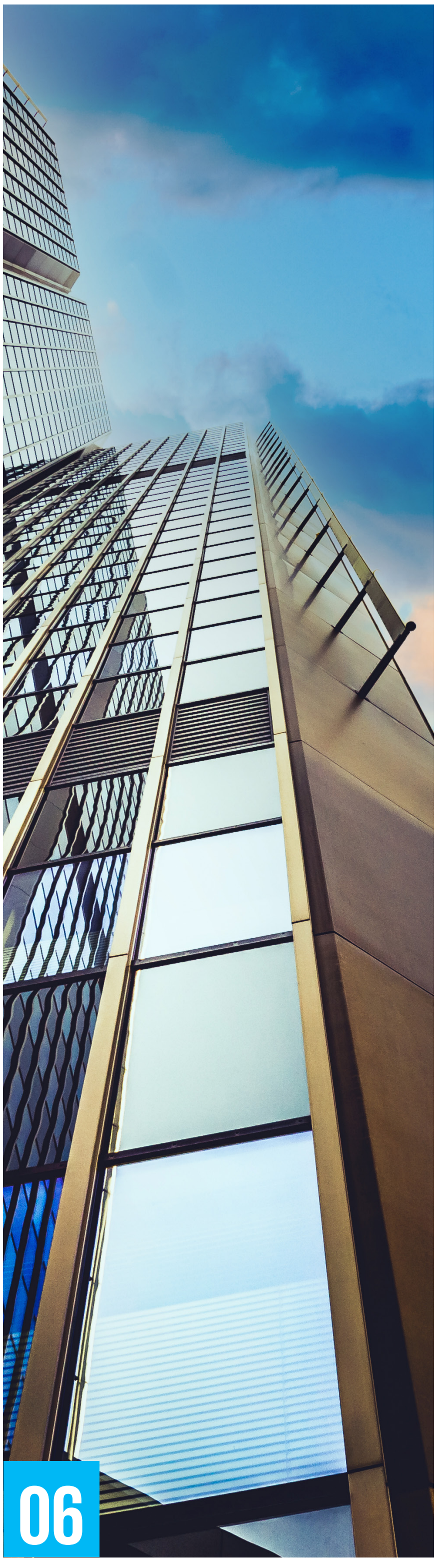


Executive summary

Natural resources remain a major attraction

SSA's energy, mining & utilities (EMU) sector saw the highest aggregate deal value in 2022 at US$7.8bn. The sector also recorded the region's highest deal volume at 64 deals in 2022, matching the total for 2021.

SSA is home to a wealth of natural resources, a major attraction for investors who can take a long-term view. Availability of physical assets/natural resources was the most frequently cited driver for respondents' recent acquisition or investment in SSA. For international respondents, their recent SSA acquisition or investment targets operate primarily in mining. Oil & gas was the top sector for domestic investors.

Managing macro risks

Managing economic volatility and currency risk was cited as the single biggest challenge faced by respondents when making investments in SSA.

Monetary tightening in 2022 saw a flight to safety towards the US Dollar as US treasury yields rose sharply, causing emerging market currencies to depreciate against the world's reserve currency. Specific domestic issues have also proven problematic; Nigeria, for instance, floated the Naira in June 2023, causing the currency to plummet. While it is difficult to predict exactly when these forces will abate, provided inflation continues to fall in the US, it is likely that rates will not be hiked much further and the Federal Reserve could begin rate cutting in 2024. This should relieve pressure on emerging market currencies, including SSA.

Prioritising integration is a must

Looking back on their most recent investments in SSA, 21% of respondents say they would have ensured due diligence was better linked with their integration plan. Similarly, 21% say they would also have sought more external support from advisers with regard to integration in their most recent deal.

Integration plans should encompass core business areas such as people, processes and technology. These are particularly significant in SSA markets, especially for international or intra-African acquirers, given the cultural and regulatory disparities between countries. Dealmakers must set clear strategies for integrating across key levers, such as clear internal communications, embedding a unified and clearly articulated corporate culture, robust organisation-wide governance practices, human capital development and key employee retention policies, as well as harmonising technology systems and any available automation capabilities.

Working alongside local advisers is essential to understanding the nuances of domestic markets and leveraging expertise to achieve a smooth and successful integration post-acquisition.

Optimism abounds for deal outlook

The outlook for M&A in SSA for respondents is one of optimism. More than two-thirds (68%) of respondents expect deal activity to increase over the next two years, including 31% who think it will increase significantly. South Africa and Nigeria are expected to see the lion's share of this, being the top two destinations for future investments among those planning an acquisition in the region, as cited by 50% and 30%, respectively.

Similarly, international investors are expected to return to the market, with 68% indicating that their experience of dealmaking in SSA was positive, making them either slightly (48%) or significantly (20%) more likely to reinvest in the region.

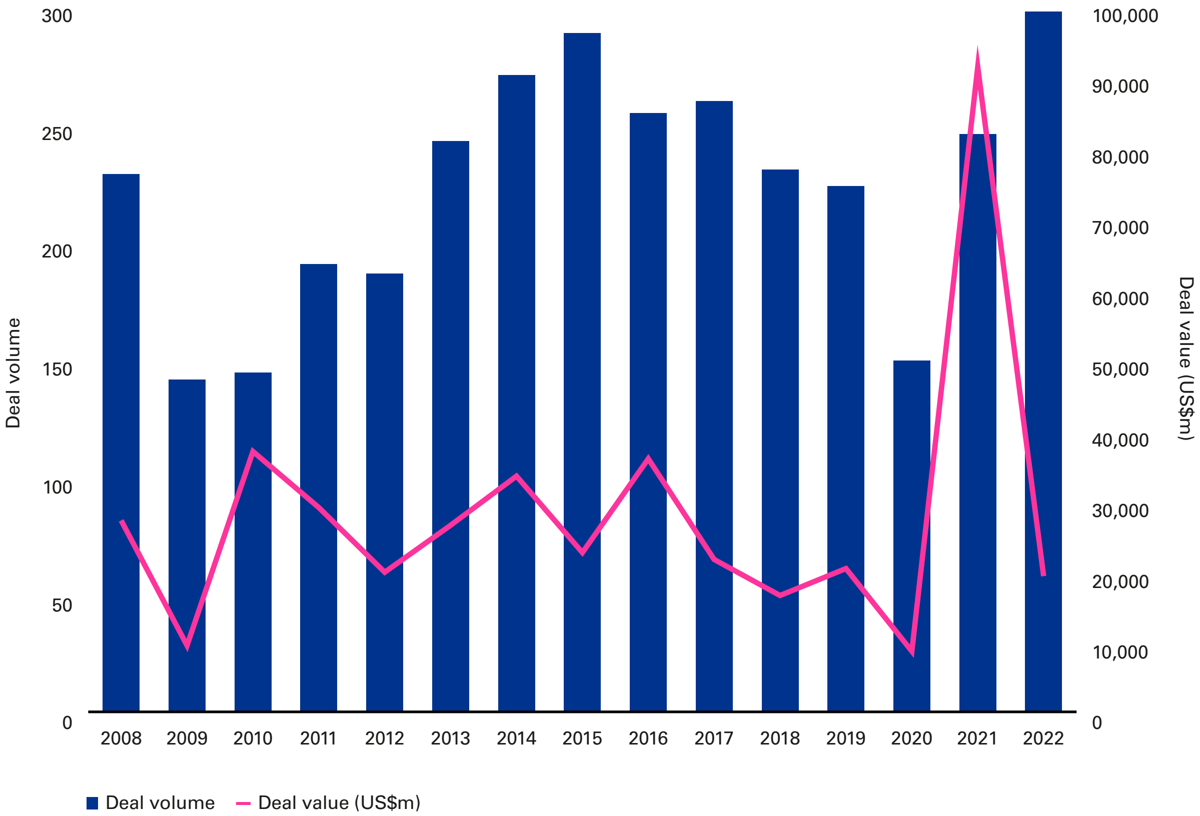
Businesses in the region will also invariably benefit from strong demographic trends, with Africa set to be the world's fastest growing continent. According to the United Nations, the population of SSA is expected to double by the middle of this century. Africa's population is projected to reach 4.2bn by 2100, second only to Asia, and to continue to climb thereafter, while other regions of the world see population shrinkage, per figures shared by the African Development Bank. In concert with rising urbanisation, industrialisation and the increasing significance of free trade reform on the continent, Africa is likely to grow into the foremost engine of global growth over the coming decades.

Part one:

The state of play in Sub-Saharan Africa deals landscape

M&A deal activity

Sub-Sahara Africa M&A, 2008-2022



M&A deal activity in SSA made an impressive comeback following the pandemic and, unlike the rest of the world, posted record transaction volumes in 2022. There were 297 deals announced last year—a 21% increase from 2021 and almost double the activity seen in 2020. While total deal value fell sharply year-on-year in 2022, it remained within a range of annual aggregate values seen in the previous decade, reaching US$19.2bn, a notable recovery from US$8.6bn in 2020. Overall, it represents an impressive increase and reflects the dynamism and immense growth potential of SSA.

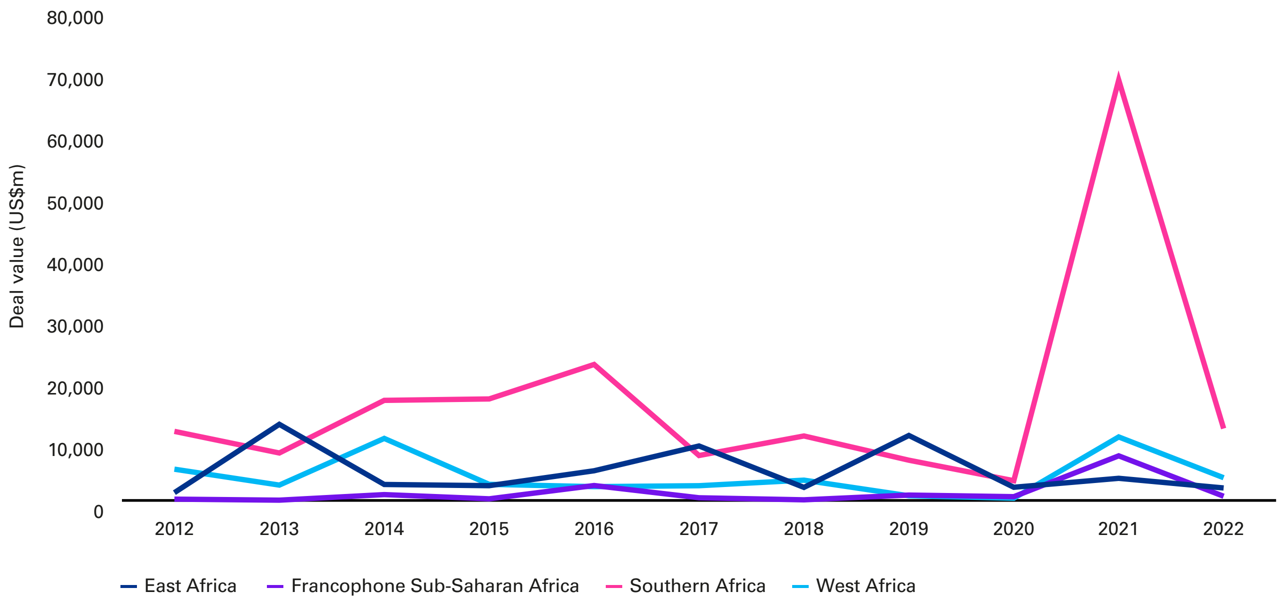
In 2022, East Africa enjoyed a record year for deal volume, which increased by 60% year-on-year to 75%. The sub-region's top deal in 2022 was the US$878m acquisition of Tanzania-based nickel producer Lifezone Metals by GoGreen Investments, a US special purpose acquisition company. The deal will see Lifezone Metals, which is looking to capitalise on industry appetite across the battery metals supply chain, list on the New York Stock Exchange, becoming the first pure-play nickel resource and cleaner technology company to do so.

West Africa was also notably active in 2022, with US$3.7bn in total deal value attributable to the sub-region being the fourth-highest level in the past decade, while deal volume was joint-second-highest on record, with 39 deals announced.

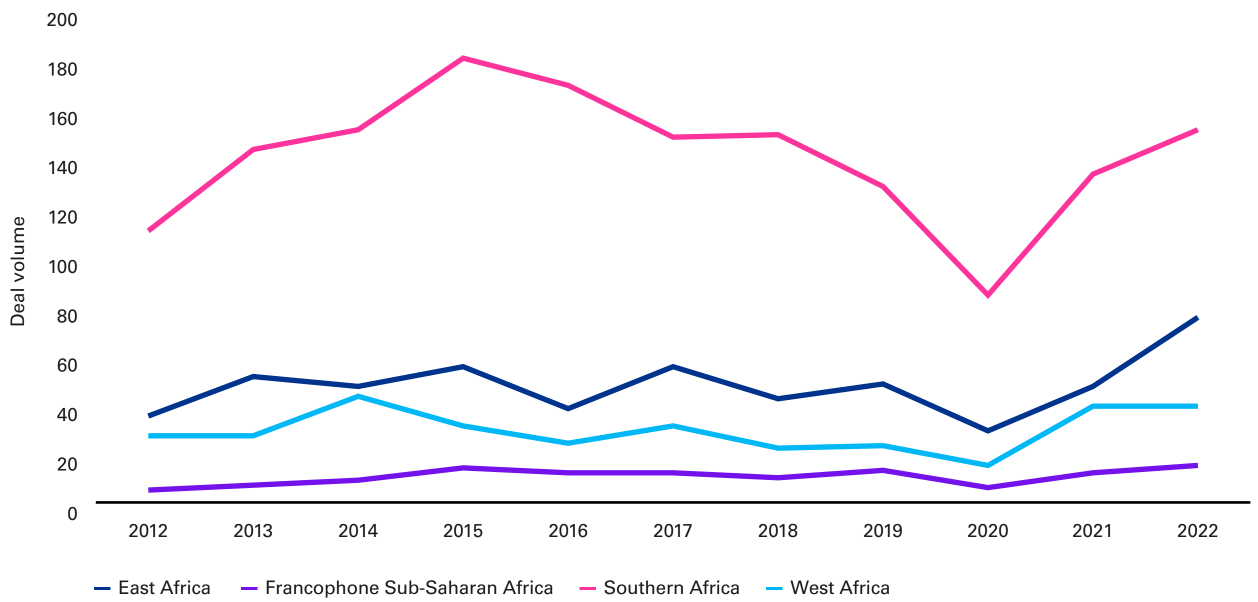
In keeping with the broader SSA region's rebound, Southern African M&A activity witnessed a strong recovery from the 2020 pandemic lows, with deal volume continuing to increase in 2022, in this case by 14% year-on-year to 151 transactions.

Francophone SSA specifically saw its strongest year on record for M&A volume in 2022, its deal count reaching 15. Total deal value fell sharply year-on-year to €679m, though this was still largely in line with previous years. The sharp downturn in value was a function of 2021 purchase of Bollore Africa Logistics South Africa, an entity based in Cote d'Ivoire for US$6.4bn by MSC Mediterranean Shipping.

M&A deal value by region



M&A deal volume by region



Top deals in SSA

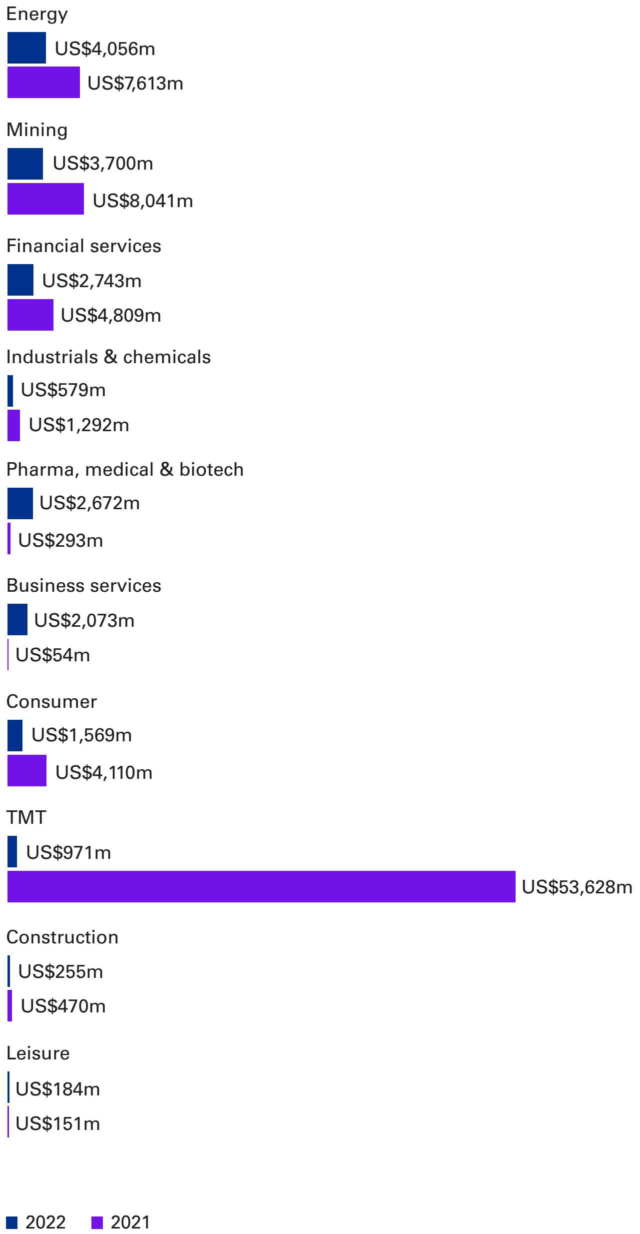
South Africa was the source of five of the 10 largest deals by value seen in SSA in 2022. The biggest transaction was the purchase of a 55.44% stake in the private healthcare services group Mediclinic International by MSC Mediterranean Shipping, Remgro and SAS Shipping Agencies Services for US$2.6bn.

The Mediclinic International deal was the only transaction in the pharmaceutical, medical and biotech sector featured in 2022's top 10, half of which were energy and mining-related acquisitions. The five energy and mining deals were spread across the continent, with two in South Africa and one each in Tanzania, Angola and Nigeria.

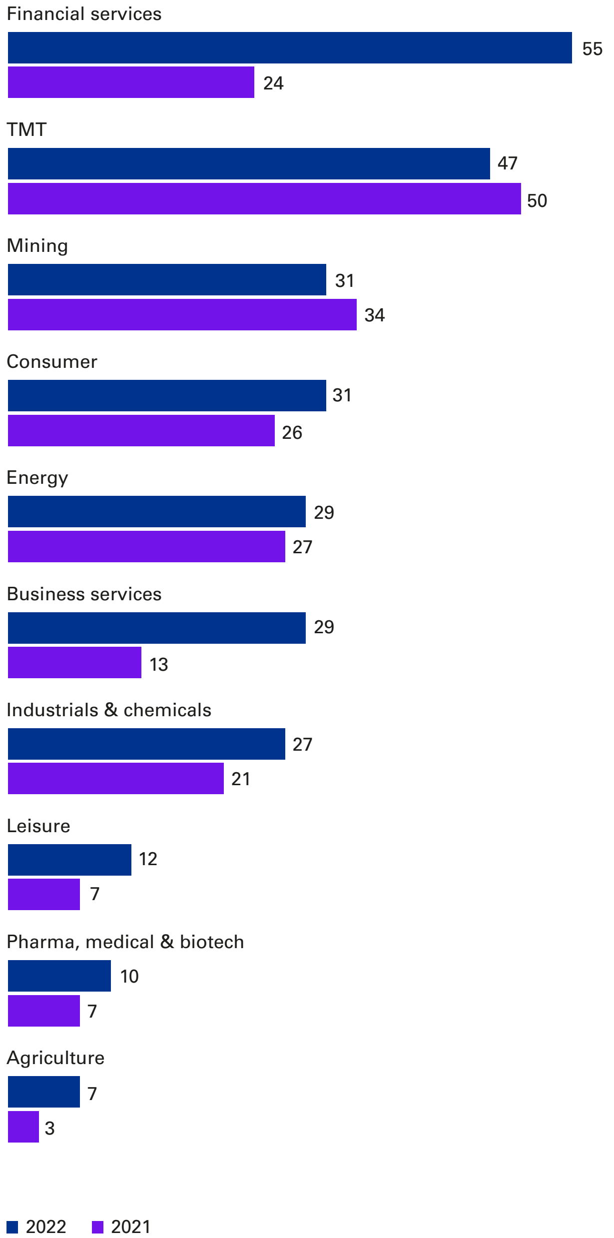
Top 10 announced deals in SSA, 2022

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value US$m
09/06/2022	Mediclinic International Plc (55.44% Stake)	Pharma, medical & biotech	South Africa	MSC Mediterranean Shipping Company S.A.; Remgro Limited; SAS Shipping Agencies Services Sarl	South Africa	2,579
03/01/2022	Teraco Data Environments (Pty) Ltd (55% Stake)	Business services	South Africa	Digital Realty Trust, Inc.	USA	1,925
09/11/2022	Royal Bafokeng Platinum Limited (63.36% Stake)	Mining	South Africa	Northam Platinum Ltd	South Africa	1,787
25/02/2022	Mobil Producing Nigeria Unlimited (100% Stake)	Energy	Nigeria	Seplat Energy Plc.	Nigeria	1,583
18/07/2022	Lekela Power Limited (100% Stake)	Energy	South Africa	Africa Finance Corporation; Infinity Energy S.A.E	Egypt	1,500
13/12/2022	Lifezone Metals Ltd (100% Stake)	Mining	Tanzania	GoGreen Investments Corporation	USA	878
04/05/2022	Allianz SE (African business) (100% Stake)	Financial services	Nigeria	Sanlam Ltd	South Africa	844
28/04/2022	Sonangol E.P (10% interest in Block 15/06, 40% interest in Block 23 and 35% interest in Block 27 in Angola)	Energy	Angola	National Petroleum Corporation of Namibia; Sequa Petroleum NV; Petrolog Group	United Kingdom	500
14/07/2022	Guinness Cameroon (100% Stake)	Consumer	Cameroon	Groupe Castel	France	460
01/06/2022	Kansai Plascon Africa Limited (83.31% Stake); Kansai Plascon East Africa (Pty) Ltd. (100% Stake)	Industrials & chemicals	South Africa	Akzo Nobel N.V.; Akzo Nobel Coatings International BV	Netherlands	450

Top Sub-Sahara Africa M&A sectors by value (US$m) (Top 10 only)



Top Sub-Sahara Africa M&A sectors by volume (Top 10 only)



Consequently, the energy, mining & utilities (EMU) sector was the biggest contributor to aggregate deal value in 2022, with US$7.8bn from 64 transactions. This was closely followed by the financial services and TMT sectors at 55 and 47 deals last year, respectively. The region's total deal value for TMT targets in 2022 was surprisingly low compared with other sectors, although it was unlikely to match the sky-high total of US$53.6bn seen in 2021. This bumper figure was almost entirely the result of a US$46.1bn merger between South African internet group Naspers and Dutch investor Prosus, the companies announcing in June 2023 that the cross-shareholding would subsequently be unwound as it has impeded stock buybacks and been viewed as excessively complex by capital market investors.

The deal data for 2022 reflects the overarching themes that define M&A in the region. Investors continue to be drawn to SSA's abundant natural resources, demand for connectivity, technology that enables access to the last mile, and sectors including healthcare, financial services, and education that are benefitting from a rapidly expanding consumer market and are key to unlocking the region's vast growth potential.

Drivers and trends

SSA continues to be an attractive market to investors, primarily due to the region's abundant natural resources and relatively attractive asset valuations compared with more developed, lower-risk markets. Among our survey participants, just over a third of domestic investors (35%) said their most recent acquisition or investment in SSA was worth between US$5m-US$15m, and a further 35% said it was worth between US$15m-US$50m. The bulk of international respondents also reported their most recent SSA deal as falling within those smaller ranges (a combined 49%). This trend held true for financial as well as strategic investors and across all parts of Africa.

According to the United Nations, Africa is estimated to hold around 30%, 12% and 8% of the world's mineral reserves, oil and natural gas reserve, respectively. The region boasts impressive deposits of gold, diamonds, platinum, cobalt and uranium, with South Africa, Botswana and the Democratic Republic of Congo being prominent producers. Nigeria stands out as the continent's largest oil producer and the 12th largest globally, not to mention its significant natural gas, coal, and iron ore reserves. Angola follows closely as the second largest oil producer in Africa and the 13th largest in the world.

These precious commodity stores make Africa especially attractive for strategic investors. Across our sample, 20% of respondents say that physical assets/natural resources were the single most important driver of their most recent deal in SSA, rising to 27% among corporates who said this was their primary motivator.

"Investments in mining are mostly made in companies based in strategic locations. The abundant natural resource availability was the main reason for selecting the target and the region," says the managing director of a strategic investor in Ghana.

The other key driver of the market attractiveness is the compelling valuations, cited by 14% of respondents as the single greatest driver of their last deal. Over half of the respondents specifically say that attractive valuation and value realisation were among the biggest motivating factors behind their most recent investment decision including as much as two-thirds of those who targeted a francophone country.

"Our objective was to acquire a company that was priced well and had good future prospects. We reviewed the potential integration challenges before completing the deal and most of them were manageable," says the head of strategy of an Australian corporate that recently invested in Senegal.

Several factors contribute to the valuation differential observed between SSA and other geographies. Limited trading volumes and liquidity result in lower asset prices in capital markets. Additionally, the region is perceived to have higher political, economic, and operational risks, driving investors to demand a risk premium. Information asymmetry is another factor, with less accessible and unstandardised information affecting asset valuations in some instances. Exchange rate volatility must also be factored into investment thesis.

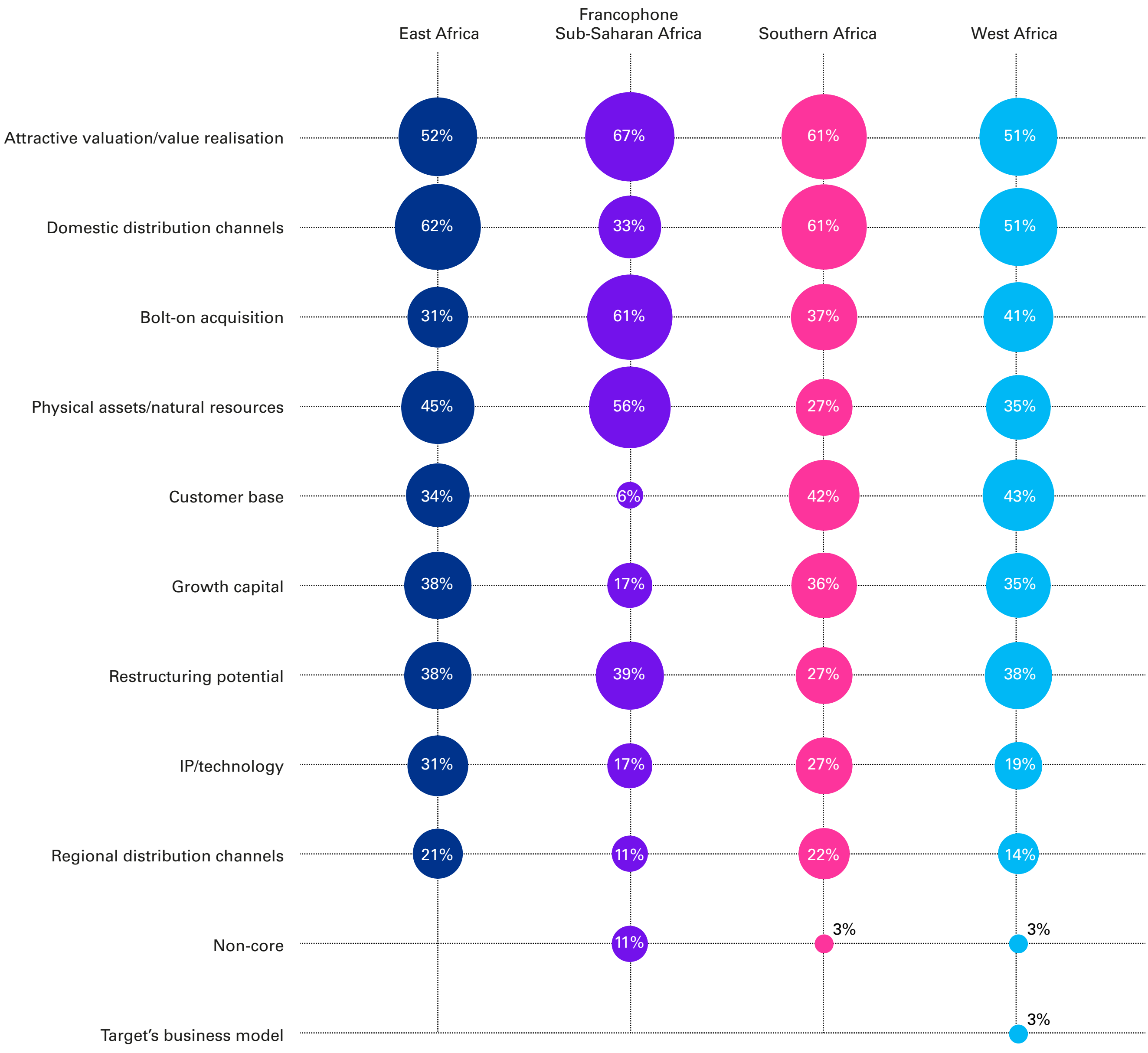
"Our objective was to acquire a company that was priced well and had good future prospects. We reviewed the potential integration challenges before completing the deal and most of them were manageable."

Head of strategy of an Australian corporate that recently invested in Senegal

Ultimately, lower asset prices offer opportunities for higher returns. However, the inherent risks associated with investing in less developed markets call for thorough due diligence and working alongside advisers with a presence on the ground who understand the complexities of SSA's various markets, which are all unique from a political, legal and tax perspective, not to mention their disparate cultures and social customs.

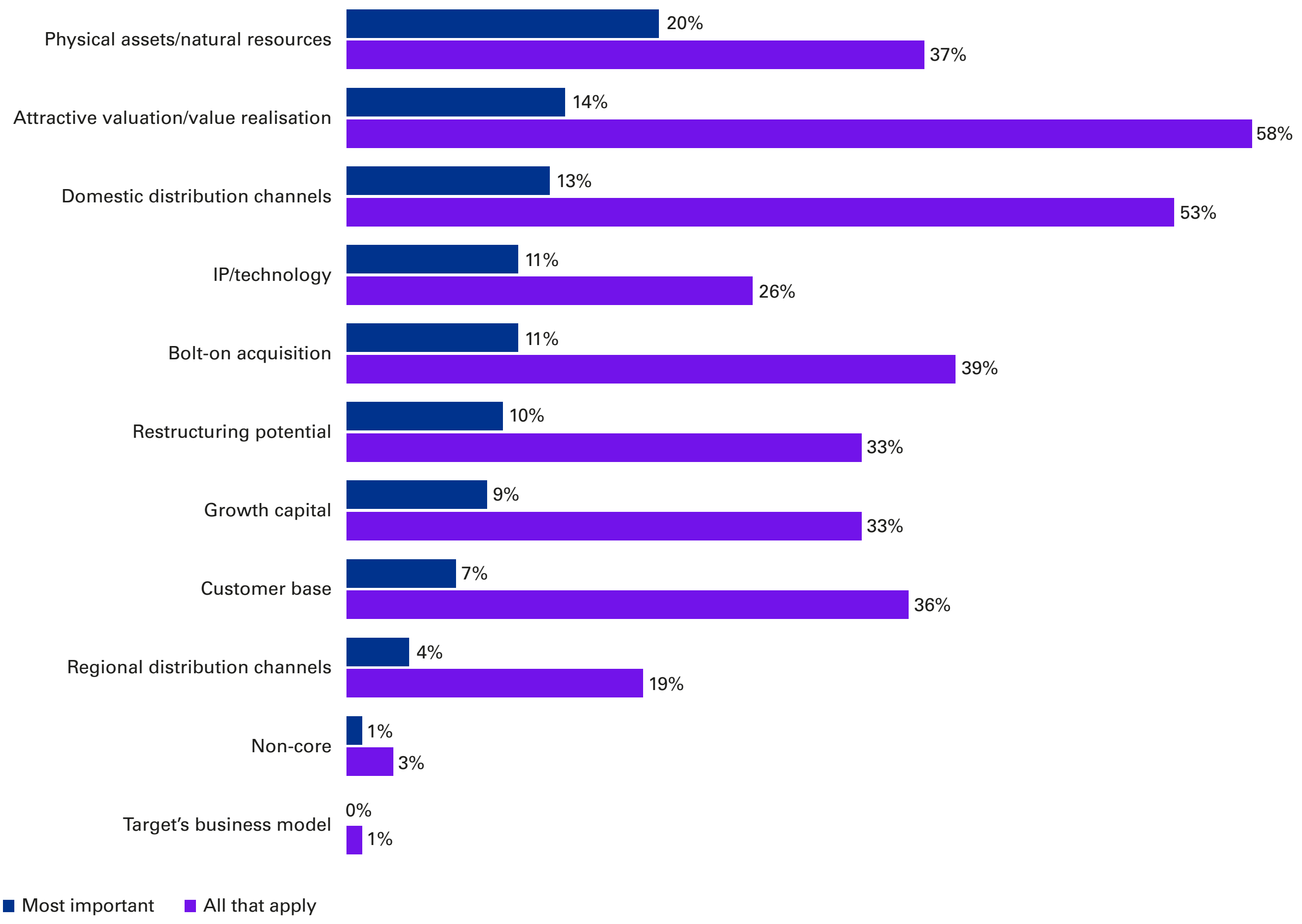
Our survey shows that accessing domestic distribution channels is another major reason for dealmaking in SSA, particularly in East and Southern Africa, where 62% and 61% of respondents, respectively, say this is one of the top reasons for them pursuing their most recent deal. For 51% of those who most recently invested in West Africa, nation-wide distribution channels were also important in influencing their decision to invest.

What were the most important drivers for your most recent acquisition or investment in Sub-Saharan Africa? (Select all that apply)



Note: Regions represent where respondents' last deal target was headquartered.

What were the most important drivers for your most recent acquisition or investment in Sub-Saharan Africa? (Please select all that apply and the most important)



The pandemic's impact on supply chains has brought this into sharp focus. According to the head of strategy at a strategic investor in Australia, "Domestic distribution channels are very valuable. As we have seen in recent times, the shift in supply chain consistency is not ideal for businesses. More investments in distribution optimisations can really help the company remain stable."

By engaging in M&A, companies can acquire existing networks, gain immediate access to established channels, and overcome entry barriers. This allows them to expand their market reach, access previously untapped customer segments and, crucially for foreign strategics and PE firms executing bolt-ons to existing platforms, gain a foothold in national markets. By using M&A to open distribution channels, businesses can also gain control over strategic points in the value chain, secure exclusive partnerships and enhance their bargaining power with suppliers and retailers.

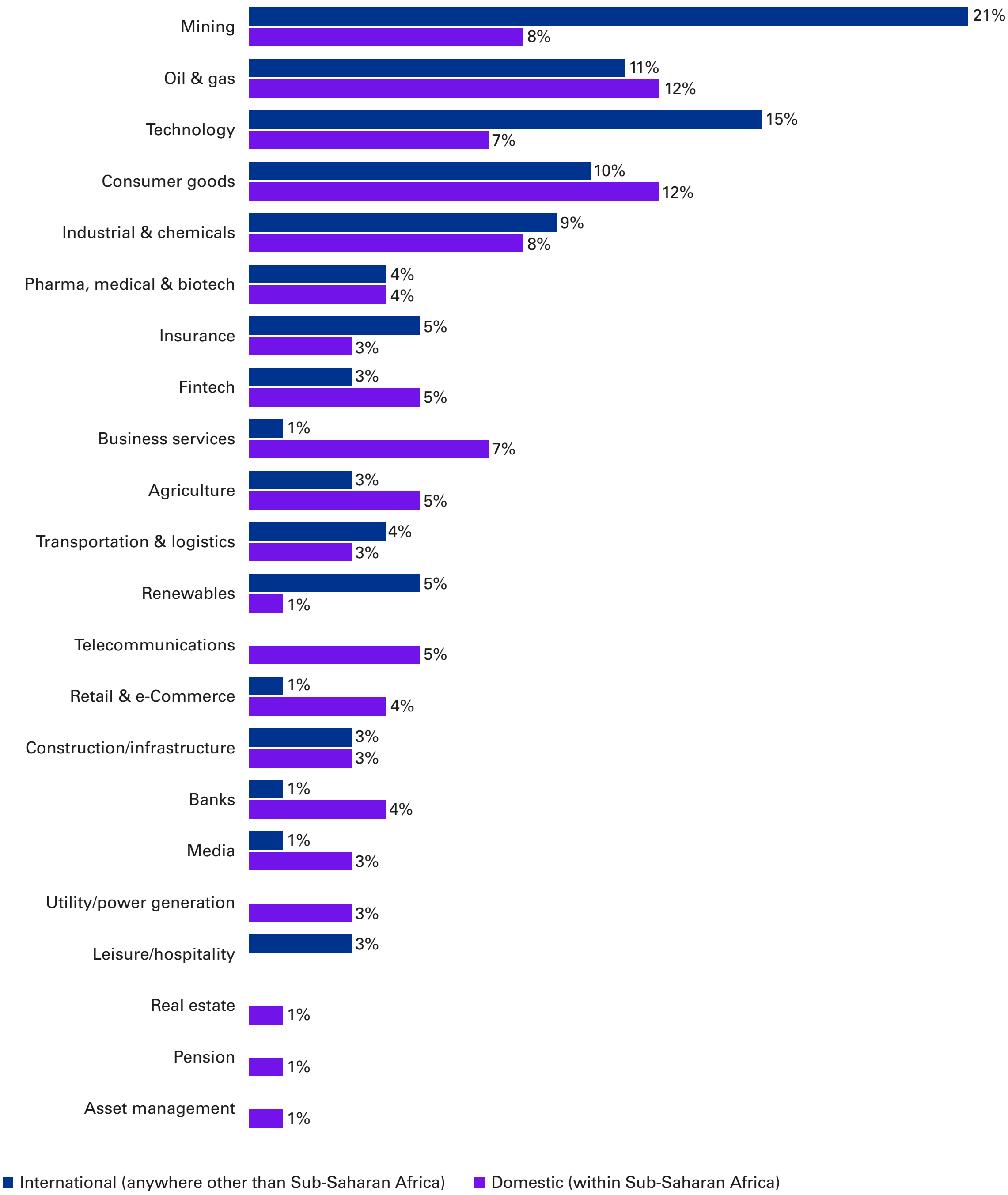
However, our research shows that investors do not yet see M&A in SSA as offering a direct route to wider regional access. Establishing a robust distribution network can be challenging due to vast geographical landscapes, fragmented markets, and inadequate infrastructure. Only 19% of respondents say access to regional distribution networks is among the top drivers of their most recent deal, falling to just 4% who say it was the single biggest motivator for the transaction. However, this is likely to change in due course, with ongoing infrastructure development improving market access between countries, which has strong political backing.

Sector highlights

Respondents' recent investments align closely with market data and the opportunity set in SSA. For international respondents, their last acquisition target operated primarily in the mining (21%) and technology (15%) sectors.

For domestic investors, oil & gas, and consumer goods led with both selected by 12% of respondents respectively.

In which sector did your most recent Sub-Saharan Africa acquisition or investment target primarily operate? (Select one)



Of those whose most recent SSA deal was based in East Africa or Francophone SSA, 31% and 28%, respectively, say they acquired a target that primarily operated in mining.

Meanwhile, in West Africa, where Nigeria owns the continent's largest crude reserves, 27% of respondents last invested in the oil & gas sector. Abundant natural resources account for investors' focus on the EMU sector.

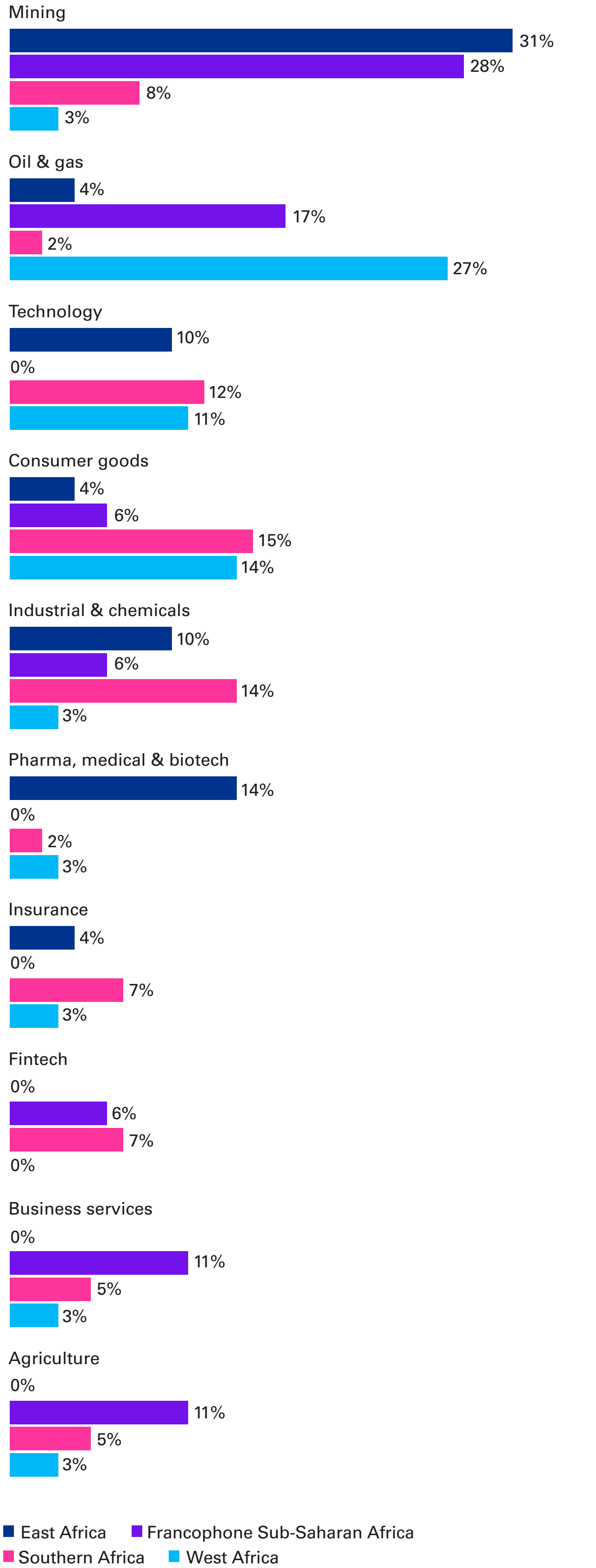
While Nigeria's Petroleum Industry Act was expected to be an enabler of investment activity in the oil & gas space, the primary driver has been the sale of assets by international oil companies to local players to facilitate their exit or reduce their presence in the upstream business. The rise of independent oil & gas companies, characterised by their agility and higher risk appetite, has intensified competition.

Another deal catalyst in the space was the launch and implementation of Decades of Gas 2021 initiative, aimed at increasing domestic gas utilisation and expanding gas infrastructure. The increasing importance of gas as a key energy source in the region continues to drive investors seeking opportunities to play in the sector, to explore M&A as a means of gaining entry into the market or as a growth accelerator. Rising demand for extraction, storage and transport infrastructure has further created avenues for M&A in the service sector supporting the industry.

The second most popular target sector among international investors, cited by 15% of this sub-group, is technology. Africa has the youngest population in the world, with an estimated 70% of the SSA population being under 30, and it is one which has swiftly become digitally enabled and connected. This is a function of the expansion of mobile networks and the increasing availability of affordable smartphones, combined with the widespread popularity of social media. Industry organisation GSMA estimates that by 2025 there will be 634m unique mobile subscribers across SSA. This mass adoption is laying a firm foundations for the growth of Africa's digital economy and represents a major investment opportunity.

Consumer goods is also a firm favourite with local and international investors alike. We find that 12% of the former and 10% of the latter report their most recent deal belonging to the sector. The long-term fundamentals in the region are incredibly impressive. It has been estimated that by 2030 Africa as a whole will boast a population of 1.7bn, and not only has its GDP growth consistently beaten the global average, but household consumption has also outpaced the economy.

In which sector did your most recent Sub-Saharan Africa acquisition or investment target primarily operate? (Select one) – Top 10 answers shown only



Deal dynamics

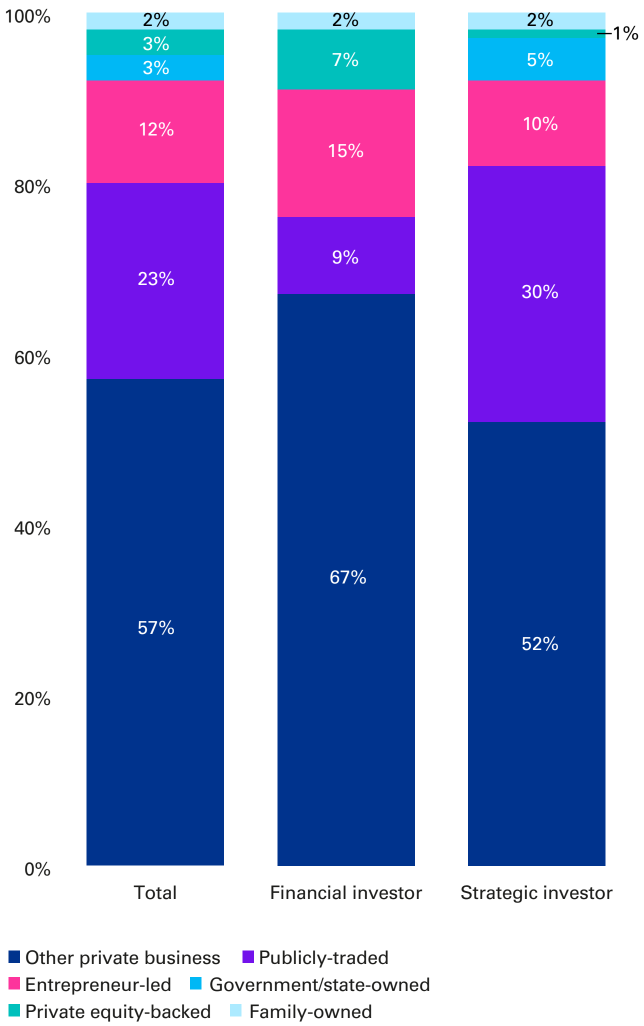
Dealmakers are largely focused on private markets, according to our research, although this depends largely on investor type. More than half of the respondents (57%) say their most recently acquired business was privately held though not family-owned, entrepreneur-led or belonging to a private equity fund, and 23% say it was publicly-traded. Adjusted for investor type, however, nearly a third (30%) of corporates have acquired a publicly-listed company, while only 9% of financial investors say the same.

Aside from the fact that there are more private companies, there is typically more flexibility when navigating these deals since there are fewer stakeholders involved, allowing negotiations to be conducted in a bilateral and confidential manner.

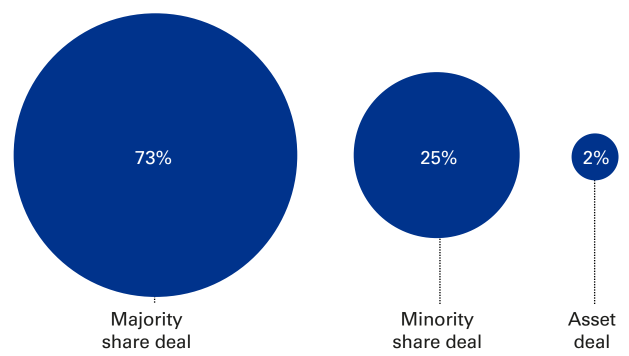
Regulatory scrutiny is another differentiating factor. Publicly-listed companies are subject to stringent requirements and shareholder approvals, which can prolong the acquisition process. In contrast, private companies generally face fewer regulatory hurdles, facilitating smoother and faster transactions, and without the influence of short-term market fluctuations and investor sentiment complicating negotiations.

Nearly three-quarters (73%) of respondents also report engaging in majority share deals for their most recent acquisitions or investments. This preference reflects a desire for greater control and influence over the target company's operations and strategic direction. Majority ownership allows investors to drive decision-making, implement operational changes and ultimately put more capital to work.

What type of business did you acquire in your most recent acquisition or investment in Sub-Saharan Africa? (Select one)



Which of the following best describes the deal type of your last acquisition or investment? (Select one)



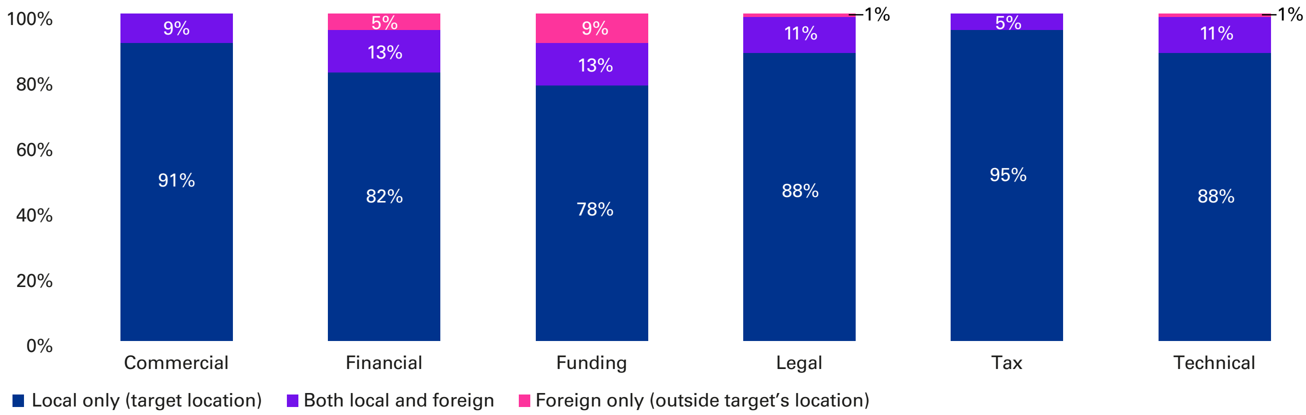
Adviser selection

The success of every deal is contingent on the support of an experienced team of advisers who can walk the buyer through all aspects of the transaction, spanning different due diligence workstreams through to potential tax and regulatory issues that could impact the transaction. The vast majority of domestic respondents in our survey work only with local advisers to the target company's location for all aspects of the deal process.

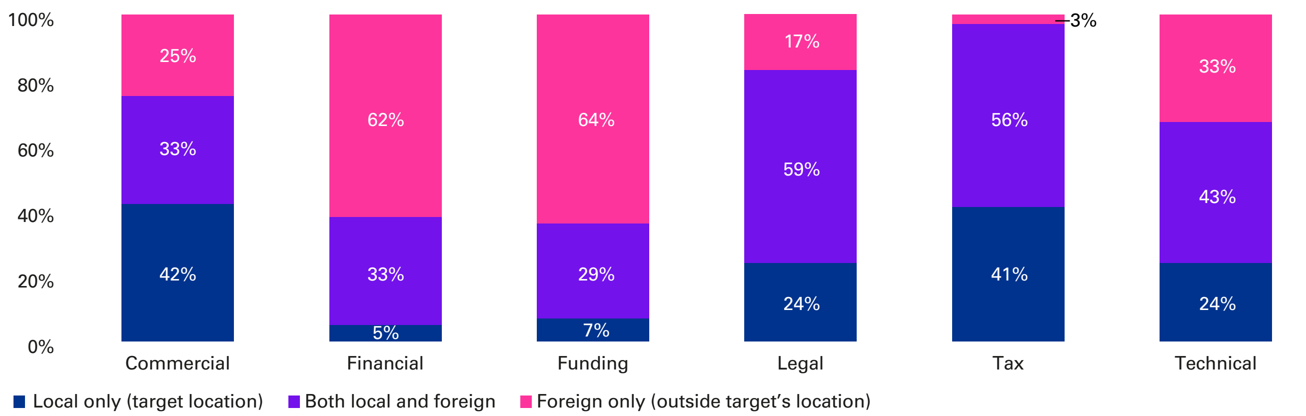
International investors take a more nuanced approach. These respondents say they work with international and domestic advisers for different areas of the transaction process, with the highest dependence on local advisers for commercial and tax due diligence.

This dual-engagement strategy is clearly influenced by their need for specialised expertise, global perspectives and a familiarity with transactions that traverse borders. A blended approach recognises the value of local knowledge in navigating specific market, tax, legal and regulatory frameworks in the target location.

For your most recent acquisition or investment in Sub-Saharan Africa, please say whether you worked with a local or foreign adviser (in respect to the target) or both in each of the following areas (Select one for each) - Domestic respondents



For your most recent acquisition or investment in Sub-Saharan Africa, please say whether you worked with a local or foreign adviser (in respect to the target) or both in each of the following areas (Select one for each) - International respondents



Financing fundamentals

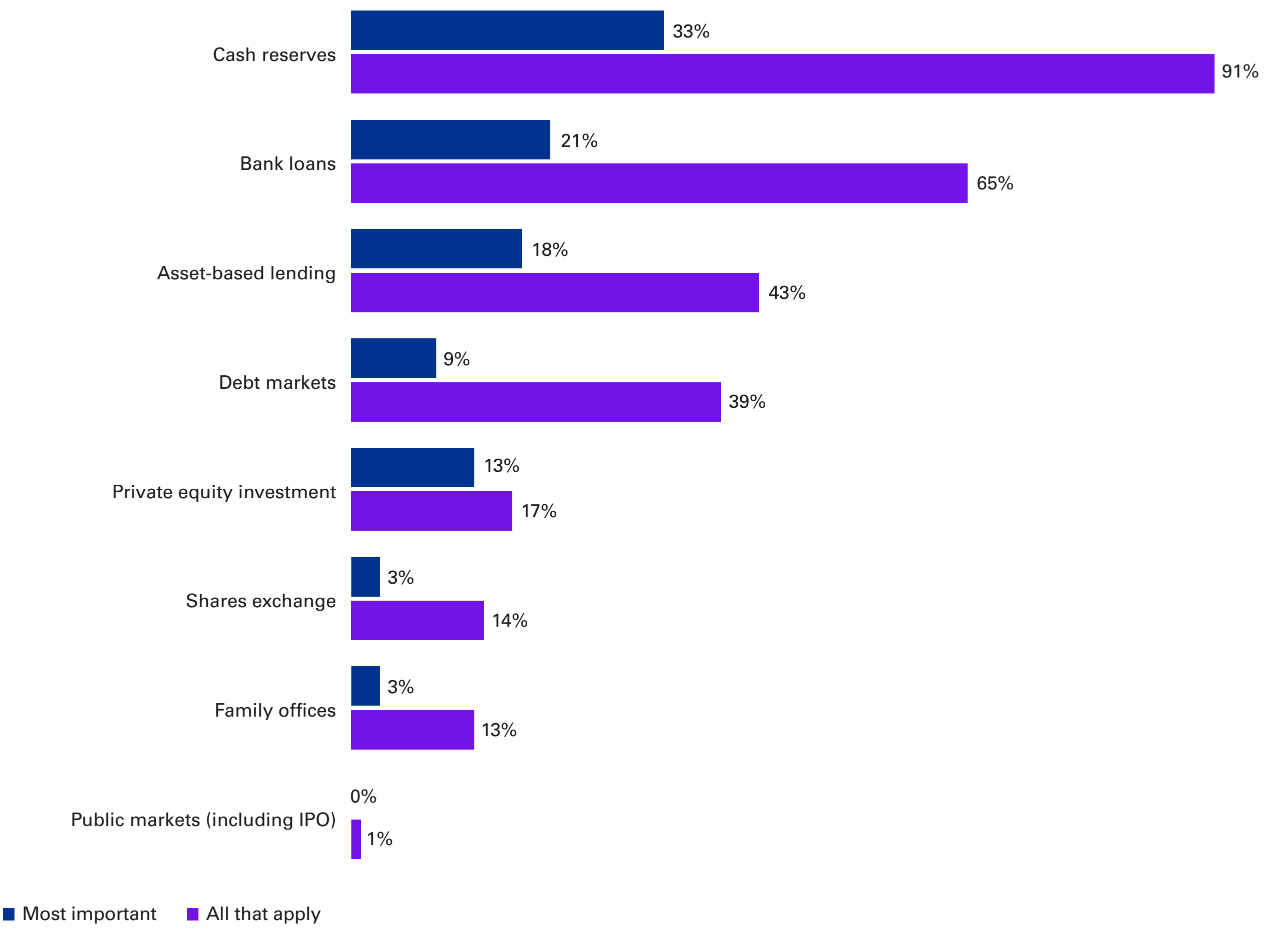
There is a clear preference for cash to finance deals in SSA. Long before the global rise in prices in the wake of the pandemic, many of the region's largest economies were experiencing high single and even double-digit inflation. For example, Nigeria's consumer price index (CPI) increased to 22.8% in June 2023 from 11.4% in 2019. The tight monetary condition in the country and others in SSA makes local debt financing costly and favours higher cash contributions in M&A transactions.

As much as 91% of respondents selected cash as one of the sources of deal financing for their last SSA acquisition and 33% report it was the single most significant. This is ahead of bank loans (with 65% and 21%, respectively) and significantly ahead of debt capital markets, with only 9% identifying this as the single most important type of financing.

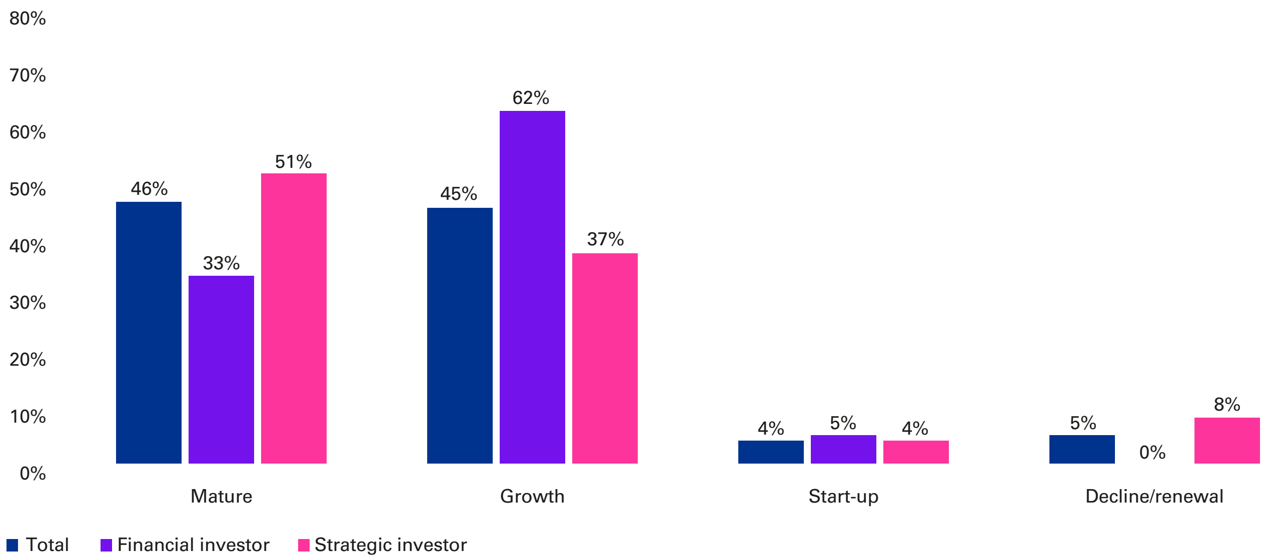
In some cases, large-cap African companies can access international capital markets to back deals, but these are rare occasions. To give a sense of how scarcely these markets are tapped, Tanzanian telecoms operator Axian was the only company in the region to issue a high-yield corporate bond in 2022, when it sold US$420m worth of notes with a circa 7.4% coupon. The bond was used to refinance an acquisition that was awaiting regulatory approval.

Based on the survey results, there is an almost equal

How did you finance your most recent Sub-Saharan Africa acquisition or investment? (Select all that apply and the most important)



What stage of the business cycle was your most recent Sub-Saharan Africa M&A acquisition or investment? (Please select one)



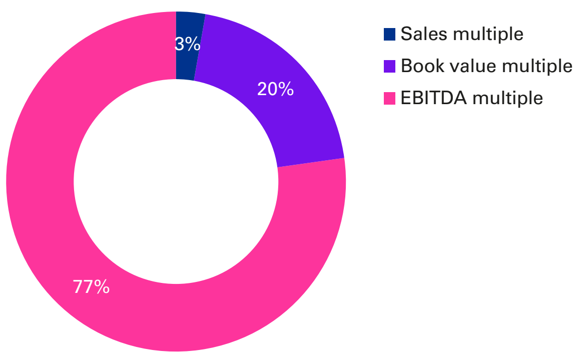
split between those respondents who say their investments have been in mature companies (46%) versus growth-stage companies (45%). Adjusted for investor type, however, 62% of financial investors say they invested in growth companies reflecting the primary objective of delivering superior returns from the growth potential of portfolio companies while 51% of strategics targeted mature businesses likely targeted for specific business objectives including access to new markets, distribution platforms etc.

Growth capital investing does not typically rely on debt. Profit volatility makes debt financing less appropriate, and many companies may lack the assets to secure loans, making an equity-led approach more suitable for financial investors in SSA.

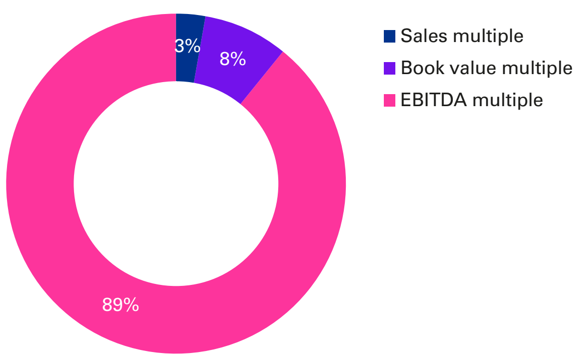
Regarding valuation models used to price deals, international and domestic investors take broadly the same approach. EBITDA multiples are the main method employed by 89% of the former and 77% of the latter, while 8% of foreign investors and 20% of their local counterparts relied upon book value multiples.

What was the basis of the valuation used in your most recent Sub-Saharan Africa M&A deal?

Domestic (within Sub-Saharan Africa)



International (anywhere other than Sub-Saharan Africa)

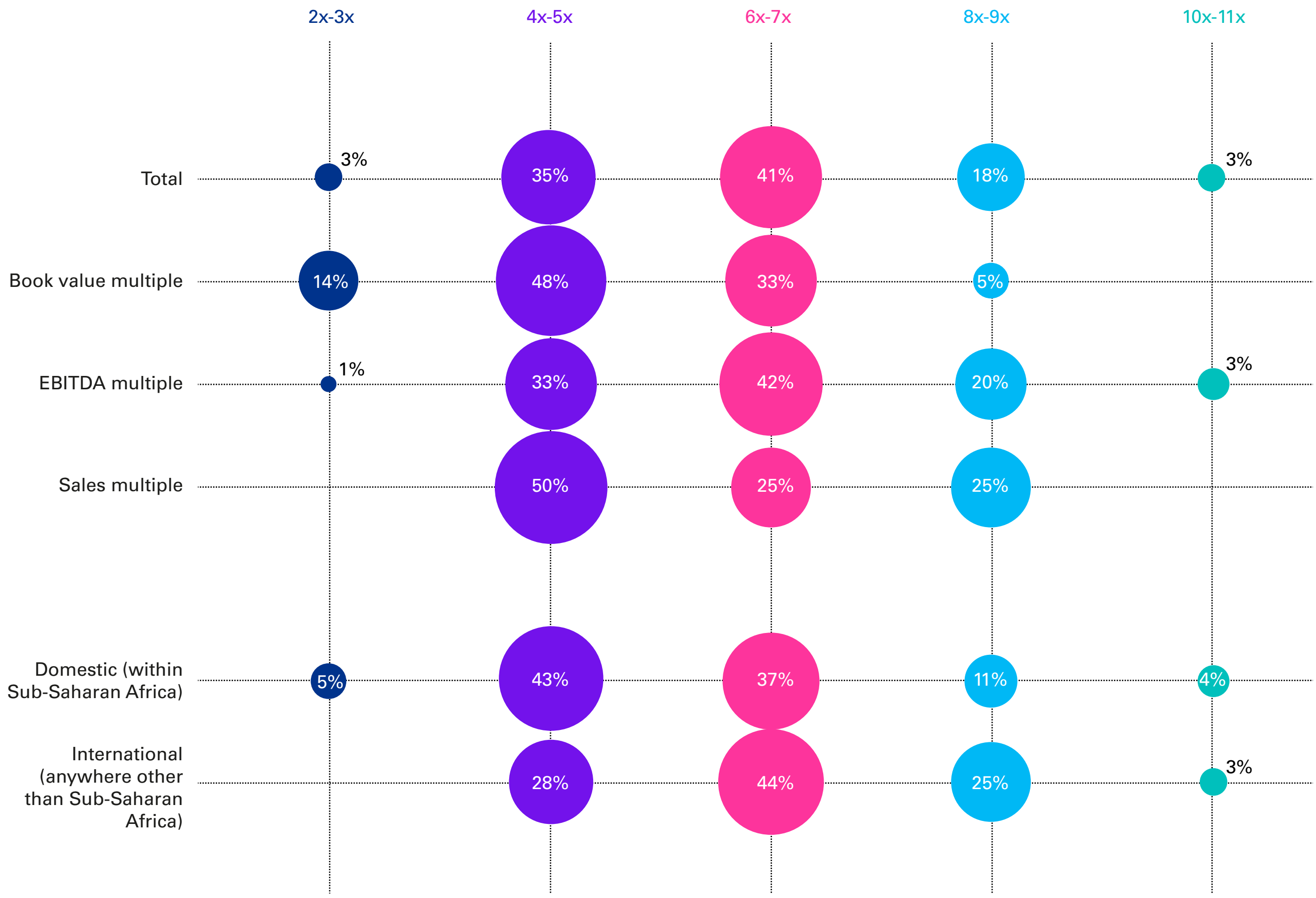


What differs between investors based within and outside SSA is the multiples they end up paying on their transactions. However, there is considerable overlap, as 43% and 28% of local and international acquirers paid multiples as low as 4x to 5x on their most recent deal. In addition, a quarter of international acquirers and 11% of domestic acquirers paid 8x to 9x on their last deal.

More intimate knowledge of a market puts local acquirers in a position of strength and is more likely to result in proprietary, off-market deal flow.

Engaging in bilateral sales processes may be beneficial to local acquirers, however, other factors are at play besides the benefit of local presence. Larger companies typically command higher EBITDA multiples if they have a longer track record of profitability and more developed and diversified customer base. It is reasonable to assume that, on balance, international investors will be making larger deals in SSA than local players.

In relation to the basis of the valuation used in your most recent Sub-Saharan Africa M&A deal, what was the range of multiple that you paid in your most recent Sub-Saharan Africa M&A deal?



Part two:

Trials and tribulations

Managing downside risks

For all the potential upside to investing in SSA, there are hurdles to overcome. Managing economic volatility and currency risk (19%) and political volatility (17%) were cited as the biggest challenges faced by respondents when completing their most recent deal in the region.

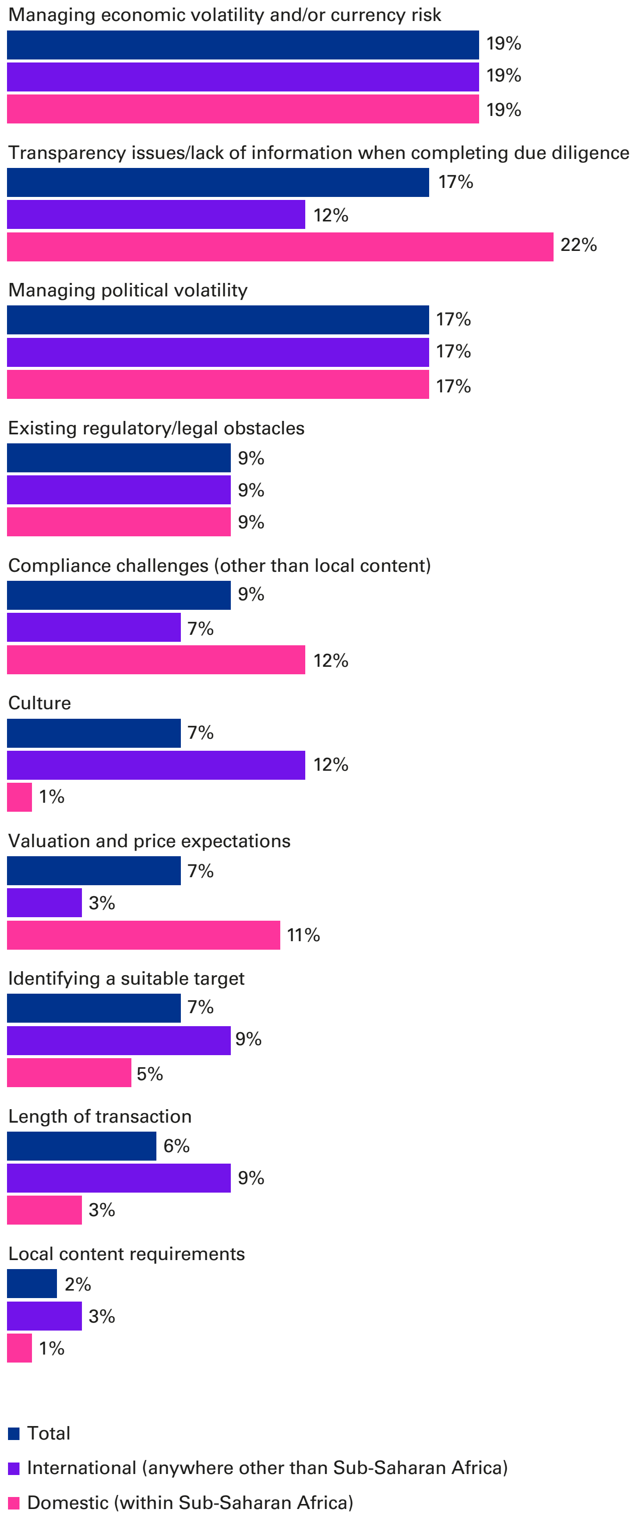
For 22% of domestic investors, transparency issues/lack of information when completing due diligence are cited as the biggest challenge, versus 12% of international investors who say the same. Investors must tread carefully when analysing target companies' financials since any reluctance to disclose information could indicate potential red flags.

For those that targeted West Africa and Francophone countries in their most recent deal the biggest challenges were transparency issues, selected by 22% and 27%, respectively.

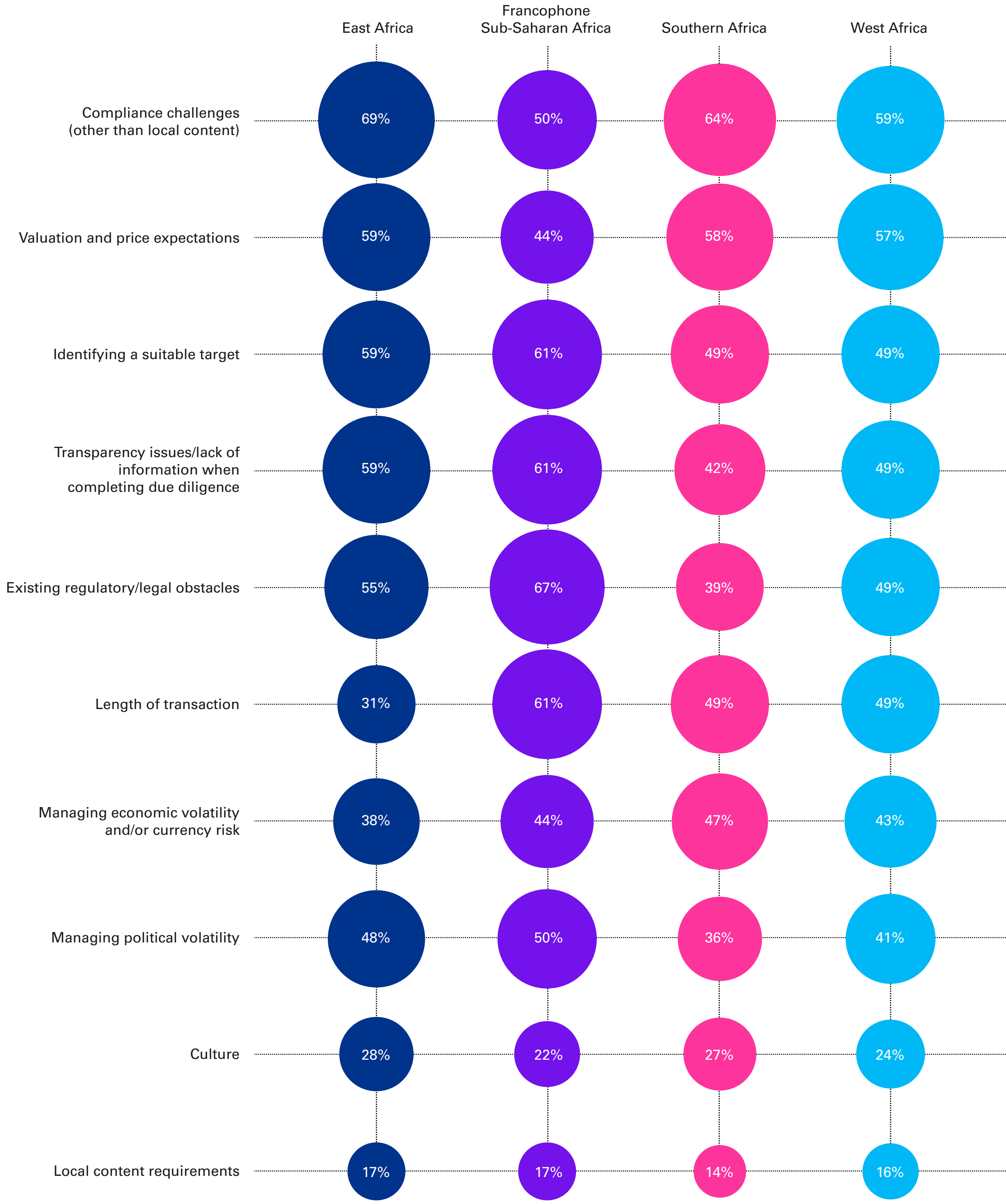
However, macro conditions and politics loomed larger for those that targeted East Africa in their most recent SSA deal, with 28% and 25% highlighting economic and currency volatility followed by political uncertainty, respectively, as top challenges. According to the Fragile States Index 2023—which tracks social, economic and political indicators—Somalia is the only country in the world on the 'very high alert' list, while neighbouring Ethiopia, also in East Africa, sits alongside Central African Republic and the Congo Democratic Republic as the only SSA nations on the 'high alert' list. No West or Southern African countries are on 'high alert'.

It is not only political uncertainty that investors need to be mindful of, but the abuse of power by public officials for private gain. According to the 2022 Corruption Perception Index published by Transparency International, Somalia is perceived to be the most corrupt nation in the world. By contrast, Botswana is jointly tied with Spain, ranking 35th out of 180 countries, the highest-ranked African nation. This once again demonstrates the wide divergence between different markets in SSA and therefore their attendant risks.

What were the biggest challenges in completing your most recent deal in Sub-Saharan Africa? (Select most important)



What were the biggest challenges in completing your most recent deal in Sub-Saharan Africa? (Select all that apply)



Note: Regions represent where respondents' last deal target was headquartered.

TSAs, warranties and indemnities

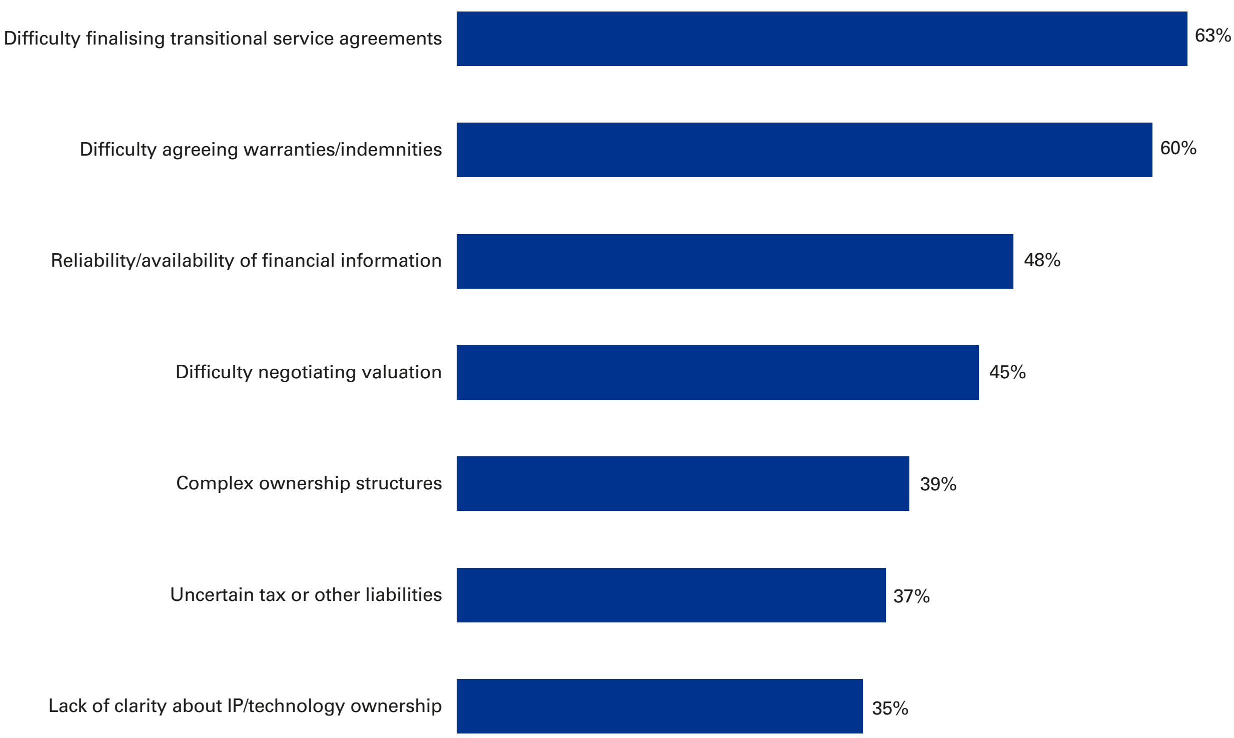
Transitional Service Agreements (TSAs) are an important feature of any M&A transaction, particularly when the buyer needs time to integrate the acquired business or assets into its operations, establish new systems or train personnel. TSAs provide continuity and support during this transitional phase, minimising disruptions and ensuring a smoother post-merger integration process.

Equally, warranties/indemnities are crucial to get a deal over the line, serving to allocate risk between the buyer and the seller regarding the accuracy of information, the condition of assets and the potential liabilities associated with the target company. Warranties encourage the seller to disclose accurate and complete information during the due diligence process, while indemnities offer financial protection to buyers by creating an avenue for compensation in case of breaches of warranties or specific predefined events.

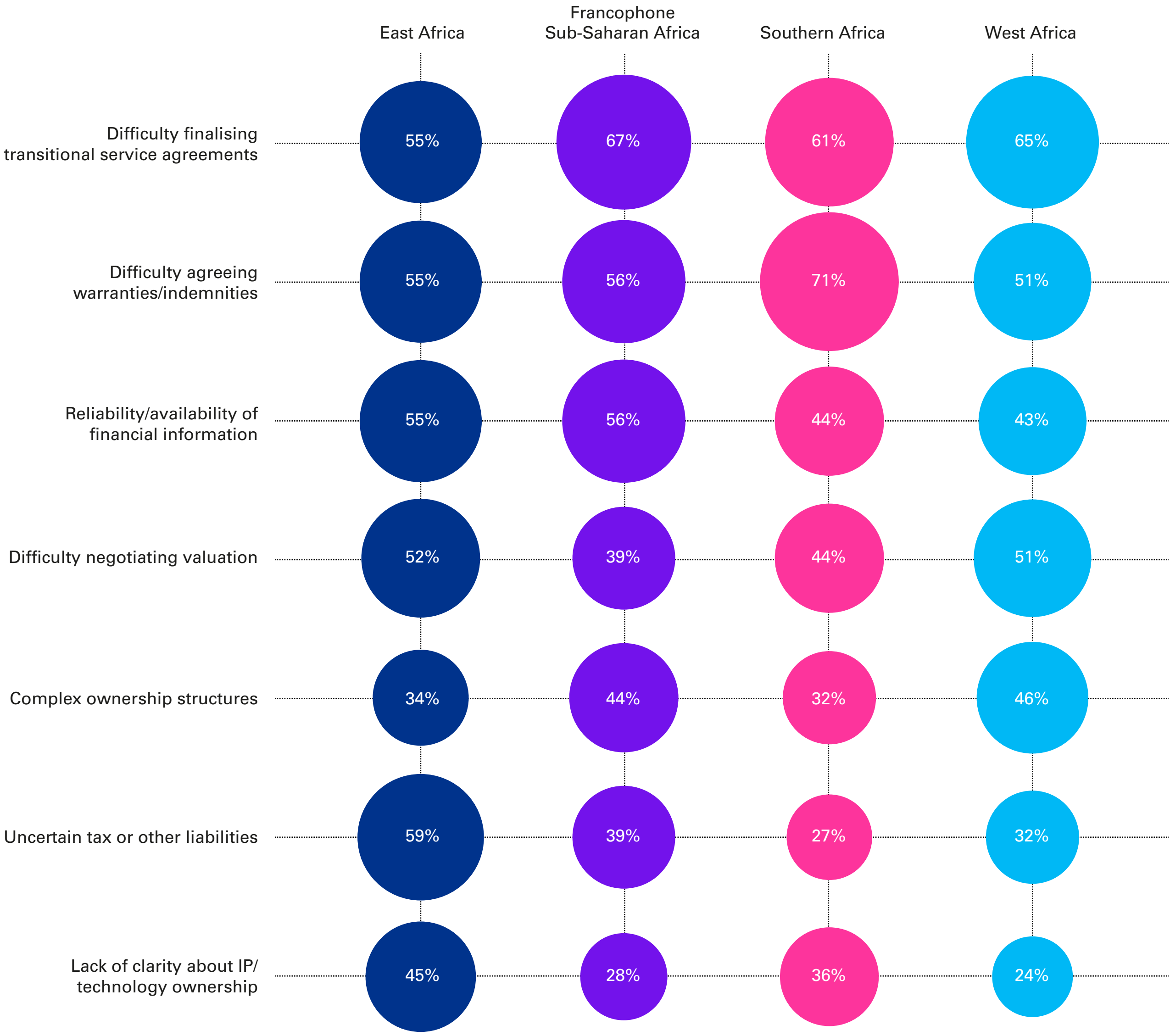
These formalities are areas where investors have faced challenges in the recent past. Our findings show that difficulty finalising TSAs and agreeing warranties/indemnities are considered the most challenging parts of the negotiation and due diligence process for 63% and 60% of respondents' most recent M&A transactions in SSA. Notably, 71% of those whose most recent target was based in Southern Africa found difficulty in agreeing warranties and indemnities. This view is shared by 55% and 51% of dealmakers from East and West Africa respectively, although the latter more commonly highlight difficulties in finalising TSAs (65%).

"There were prolonged discussions about the terms of the TSA and the warranties. The seller was not willing to offer a set of services during the transition unless we guaranteed continued work for the division," says the executive vice president of a Canadian strategic investor.

Which parts of the negotiation/due diligence process did you find the most challenging during your most recent M&A transaction in Sub-Saharan Africa? (Select all that apply)



Which parts of the negotiation/due diligence process did you find the most challenging during your most recent M&A transaction in Sub-Saharan Africa? (Select all that apply)



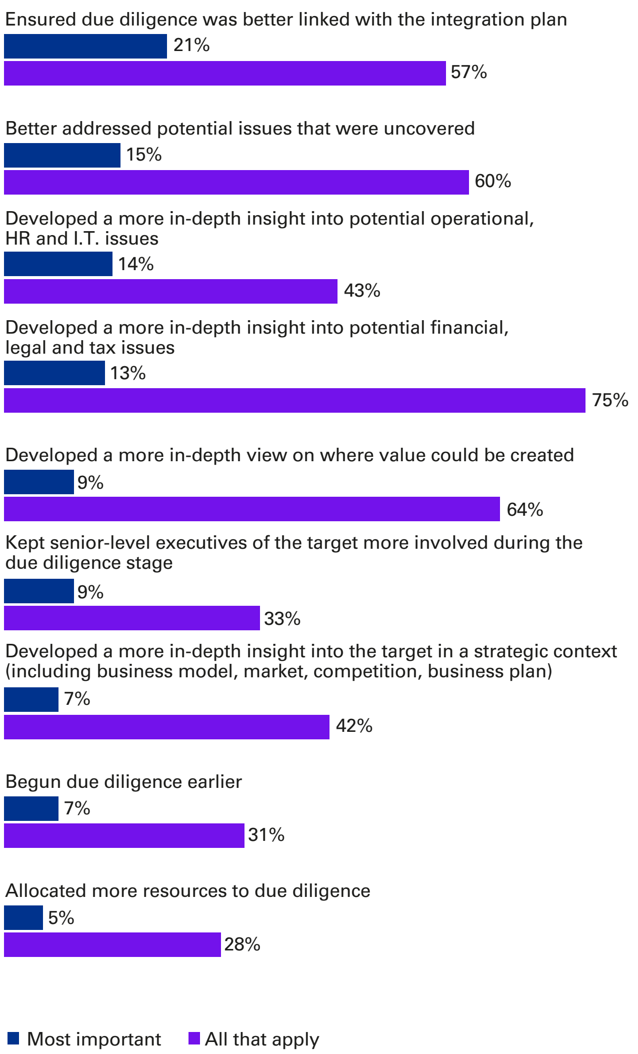
Note: Regions represent where respondents' last deal target was headquartered.

Diligence is due

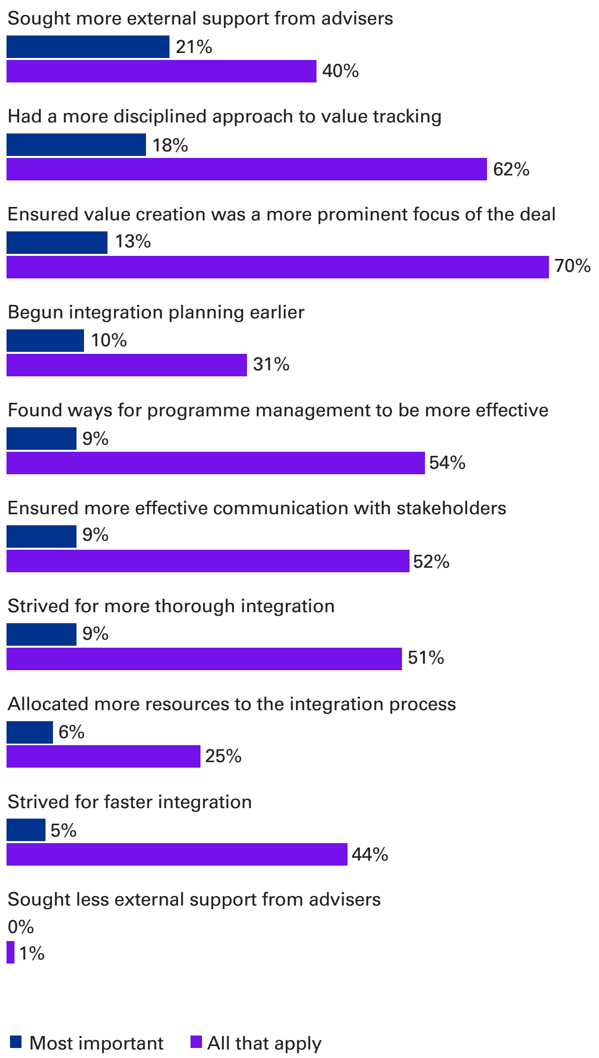
Due diligence is always a learning experience, no more than when venturing into unfamiliar geographic markets, and no two processes are ever exactly alike. There can be as much to learn about how deals are conducted in a frontier market overall as about the target company itself, with lessons to be carried over to the next deal.

We asked our respondents what they would, on reflection, be most eager to amend about the due diligence process in their most recent SSA deal: two points stand out, both of which relate to post-deal merger integration, which can be a jarring process if due care is not taken. Just over a fifth (21%) say they should have ensured due diligence was better linked to the integration plan, and the same amount (21%) say they should also have sought more external support from advisers with regard to integration.

Looking back on your most recent acquisition or investment in Sub-Saharan Africa what, if anything, would you have done differently with regards to due diligence? (Select all that apply)



Looking back on your most recent acquisition or investment in Sub-Saharan Africa what, if anything, would you have done differently with regards to integration? (Select all that apply)

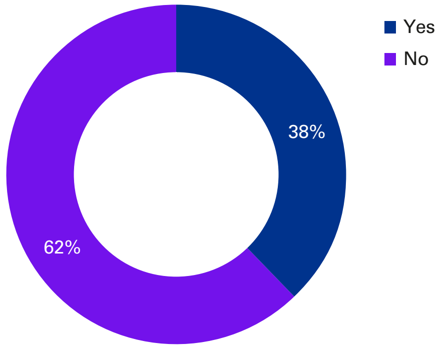


"Given that new members were involved during integration, they were not completely aware of the potential challenges that would emerge. We should have arranged better coordination with the due diligence teams," shares a CFO of a US corporate.

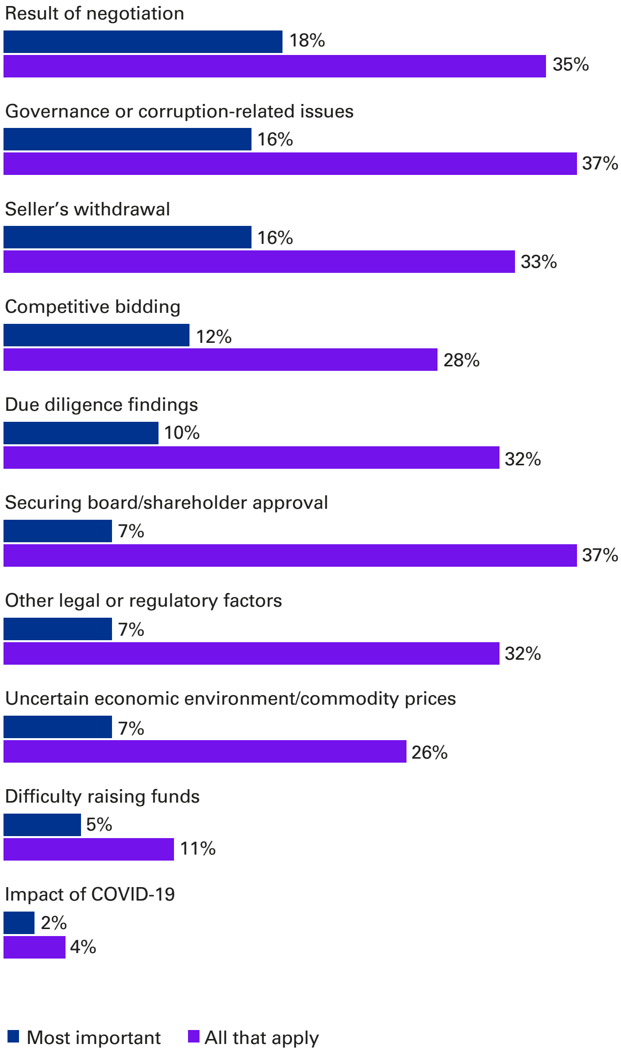
Working alongside external advisers with local knowledge can prevent unnecessary risks from arising and increase the likelihood of completing a satisfactory deal. SSA markets have distinct business environments, cultural nuances, and regulatory frameworks. Advisers familiar with these characteristics can help acquirers to identify and assess risks specific to the target company and the market at large, while navigating language and cultural barriers to better bridge the gap with the vendor. A demonstrable track record in deal negotiation and structuring, along with a tacit understanding of local market practices, smoothens the deal process.

There will always be bumps in the road of course. Nearly two-fifths (38%) of respondents say they have attempted an acquisition or investment in SSA in the past four years that failed to complete. Of this large minority that have experienced a failed deal, 37% cite governance or corruption-related issues and a further 37% point to the inability to secure board/shareholder approval as being responsible for the transaction stalling. For 18%, the most important factor in the failed investment was a breakdown during negotiations, while 16% highlight the withdrawal of the sale.

Have you attempted an acquisition or investment in Sub-Saharan Africa that failed to complete over the past four years?



If yes, why did the acquisition or investment fail? (Please select all that apply)



Grappling with macro challenges

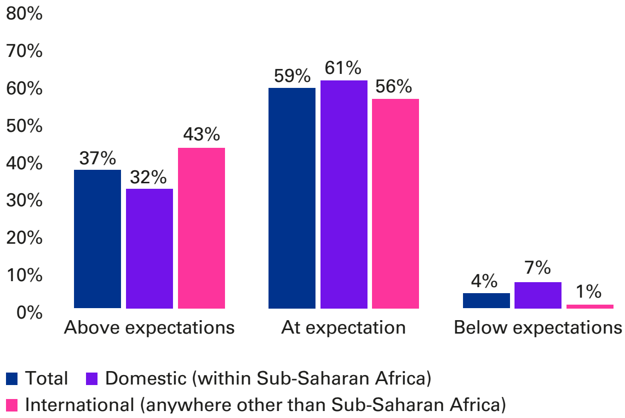
The pandemic has had profound ripple effects across the global macroeconomic environment. Governments and central banks implemented sweeping measures to mitigate the negative impacts of the crisis. SSA, like other regions, has experienced significant disruption to supply chains, rising inflation and currency depreciation as a consequence.

Unprecedented fiscal and monetary stimulus measures saw global inflation rise to the highest level in decades. Central banks including the Federal Reserve responded by steeply hiking interest rates, causing higher rates on risk-free US bonds. As a result, emerging markets faced forex volatility as the US Dollar materially strengthened as investors moved their capital out of more speculative currencies.

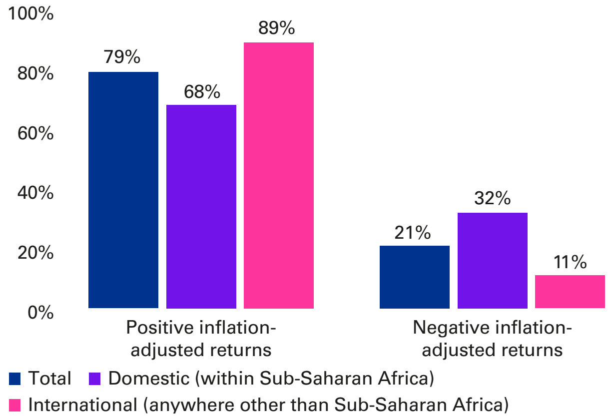
According to our survey, 59% of respondents stated that their portfolios were performing as expected before the pandemic, with 79% indicating their portfolios were yielding positive returns adjusted for inflation. Among international investors, 89% reported positive inflation-adjusted returns.

However, only 47% of respondents agree that their portfolios have been performing as expected post-pandemic. Around 80% of domestic investors and 56% of international investors reported negative returns adjusted for inflation.

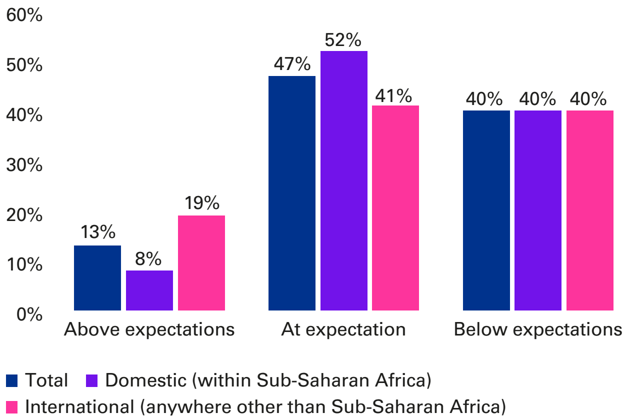
Pre-COVID-19, was your portfolio performance above or below expectations? (Select one)



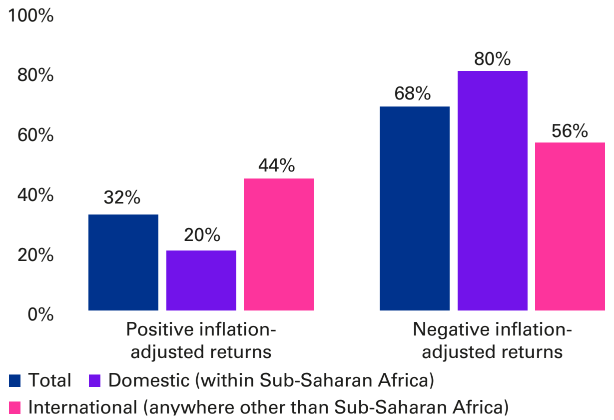
Pre-COVID-19, was your portfolio yielding positive or negative inflation-adjusted returns? (Select one)



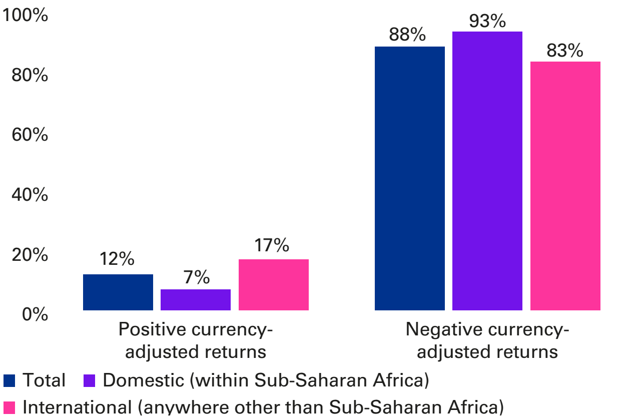
Post- COVID-19, is your portfolio performance above or below expectations? (Select one)



Post- COVID-19, is your portfolio yielding positive or negative inflation-adjusted returns? (Select one)



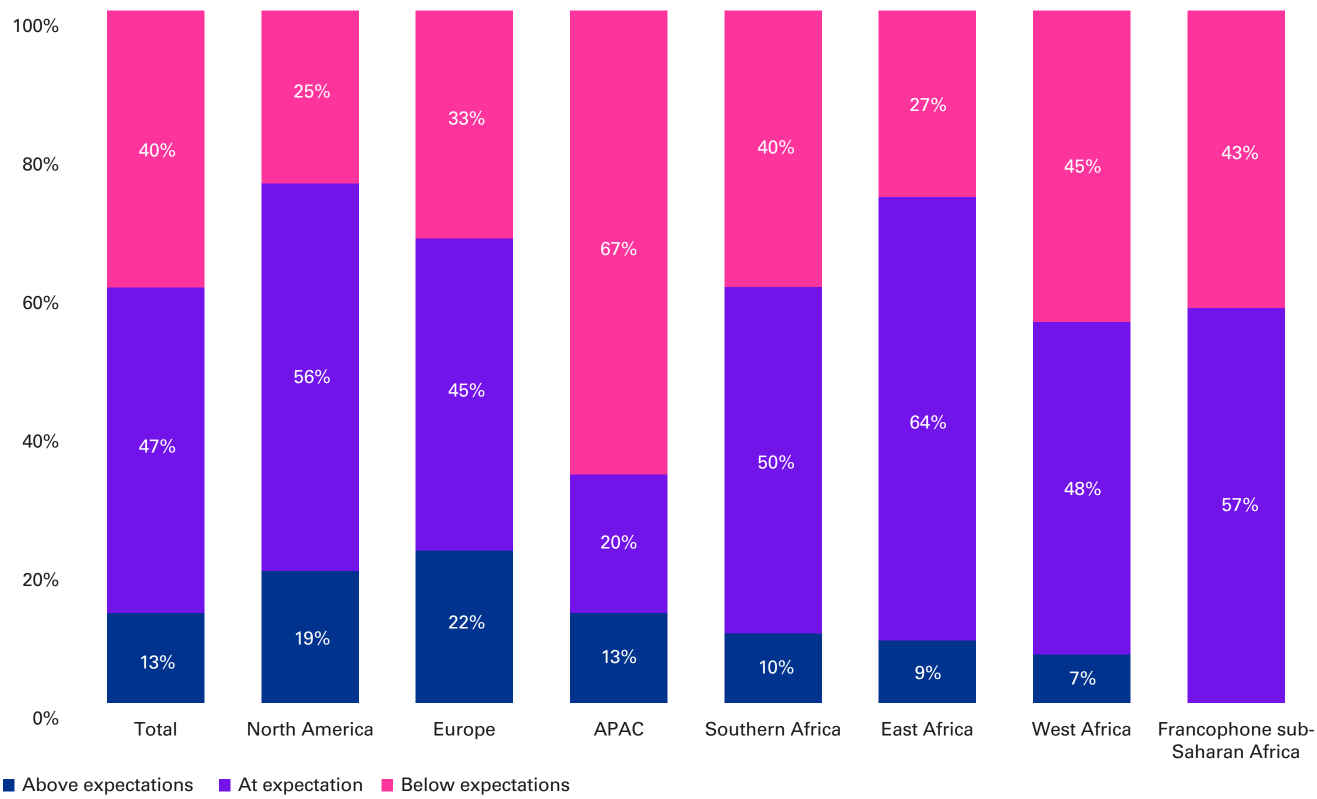
Post- COVID-19, is your portfolio yielding positive or negative currency-adjusted returns? (Select one)



Additionally, 93% of domestic and 83% of international respondents experienced negative currency-adjusted returns.

Post-COVID, portfolio performance in Southern and East Africa largely met expectations, while 45% of West Africa-based respondents reported performance falling below expectations. This regional variance may be attributed to differing levels of exposure to specific sectors and industries affected by the pandemic, as well as extreme volatility experienced by the Naira in 2023. On 14 June, Nigeria's currency fell by more than 36% against the US dollar compared with the previous day shortly after the central bank removed its peg, allowing the Naira to be traded freely on the open market. This was the sharpest fall the currency had experienced since 2016.

Post- COVID-19, is your portfolio performance above or below expectations? (Select one)



Part three:

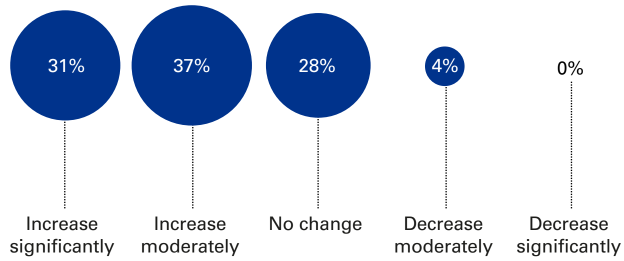
The future of deals in Sub-Saharan Africa

The outlook for SSA

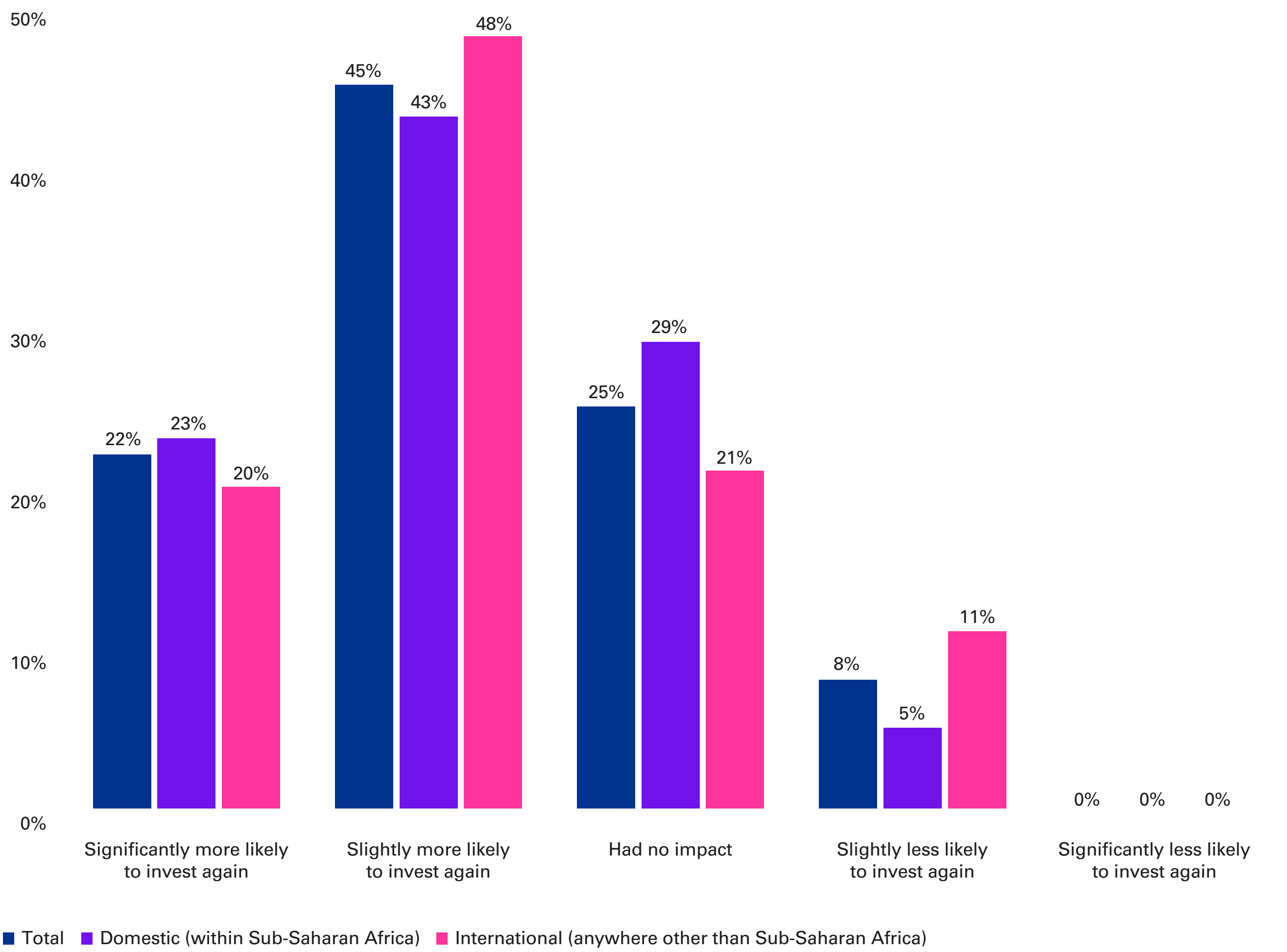
M&A in SSA has optimistic prospects, with market participants not only expecting growth over the next few years but also expecting greater investment on their own part. More than two-thirds (68%) of our survey respondents anticipate rising deal activity in the region, including 31% who expect a significant increase.

This positive sentiment is supported by the fact that 67% are more likely to invest in SSA again based on their previous experience, and 68% of those based outside of SSA had a positive experience, making them more inclined to make further investments in the region.

How do you expect M&A activity in Sub-Saharan Africa to develop over the next two years? (Select one)



How has your previous M&A experience in Sub-Saharan Africa impacted your strategy? (Select one)



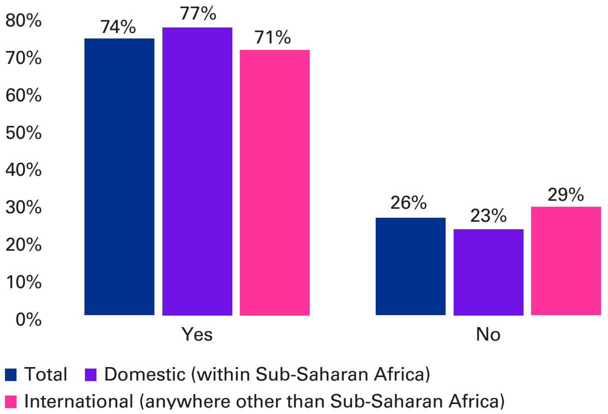
In fact, just under three-quarters of respondents (74%) say they are considering an acquisition or investment in SSA in the next two years, including 71% of international investors who report this. Additionally, 77% of all respondents are considering injecting more capital into existing acquisitions, indicating a commitment to expanding their presence in the region.

More developed African markets are expected to benefit the most from this positive trend. The top destinations for future investment in SSA are South Africa, favoured by 50% of respondents, followed by Nigeria at 30%. These are the largest economies in Africa, offering substantial market opportunities and, in the case of Nigeria, a significant consumer base, with the country boasting a population of more than 220m.

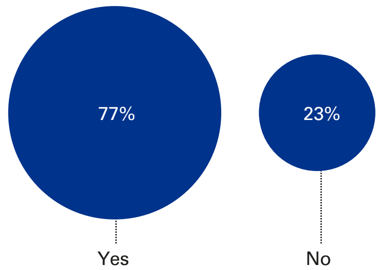
Both countries also serve as regional economic hubs, providing access to neighbouring markets and regional integration initiatives. Nigeria is a prominent member of the Economic Community of West African States, while South Africa is a member of the Southern African Development Community and has strong trade ties with other African countries.

Another major draw is their abundant natural resources, including oil, minerals and agricultural

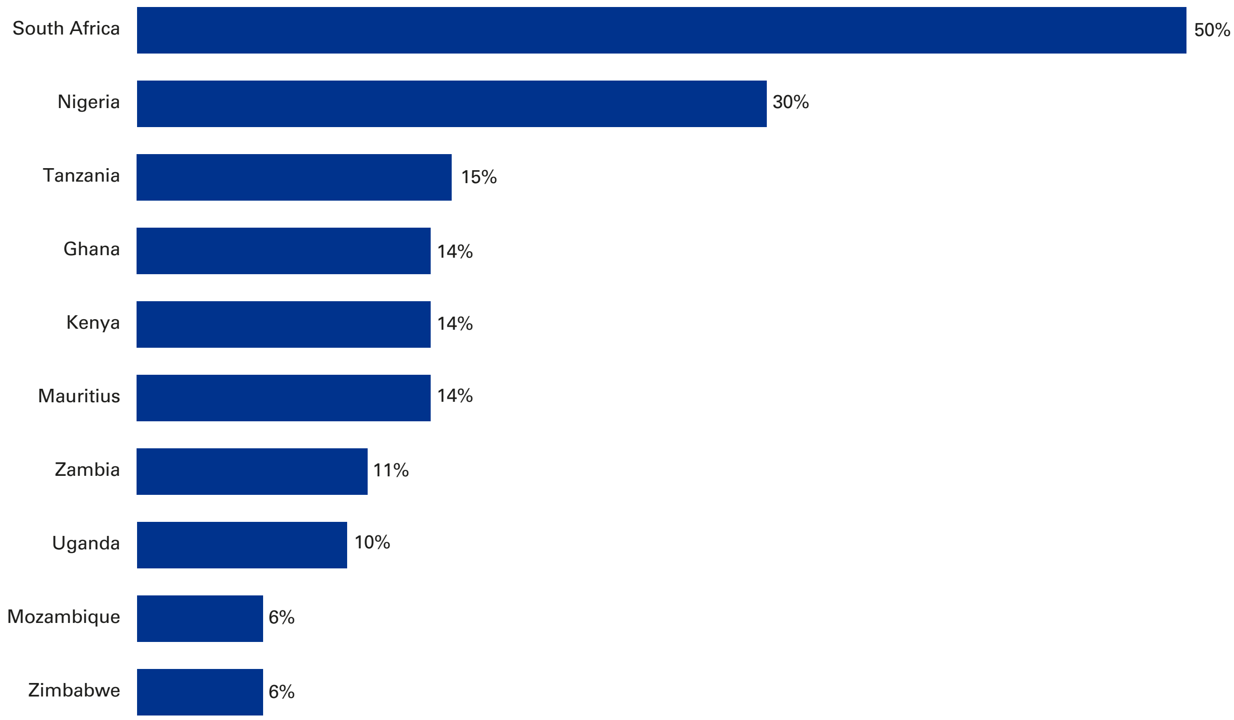
Are you considering an acquisition or investment in Sub-Saharan Africa over the next two years?



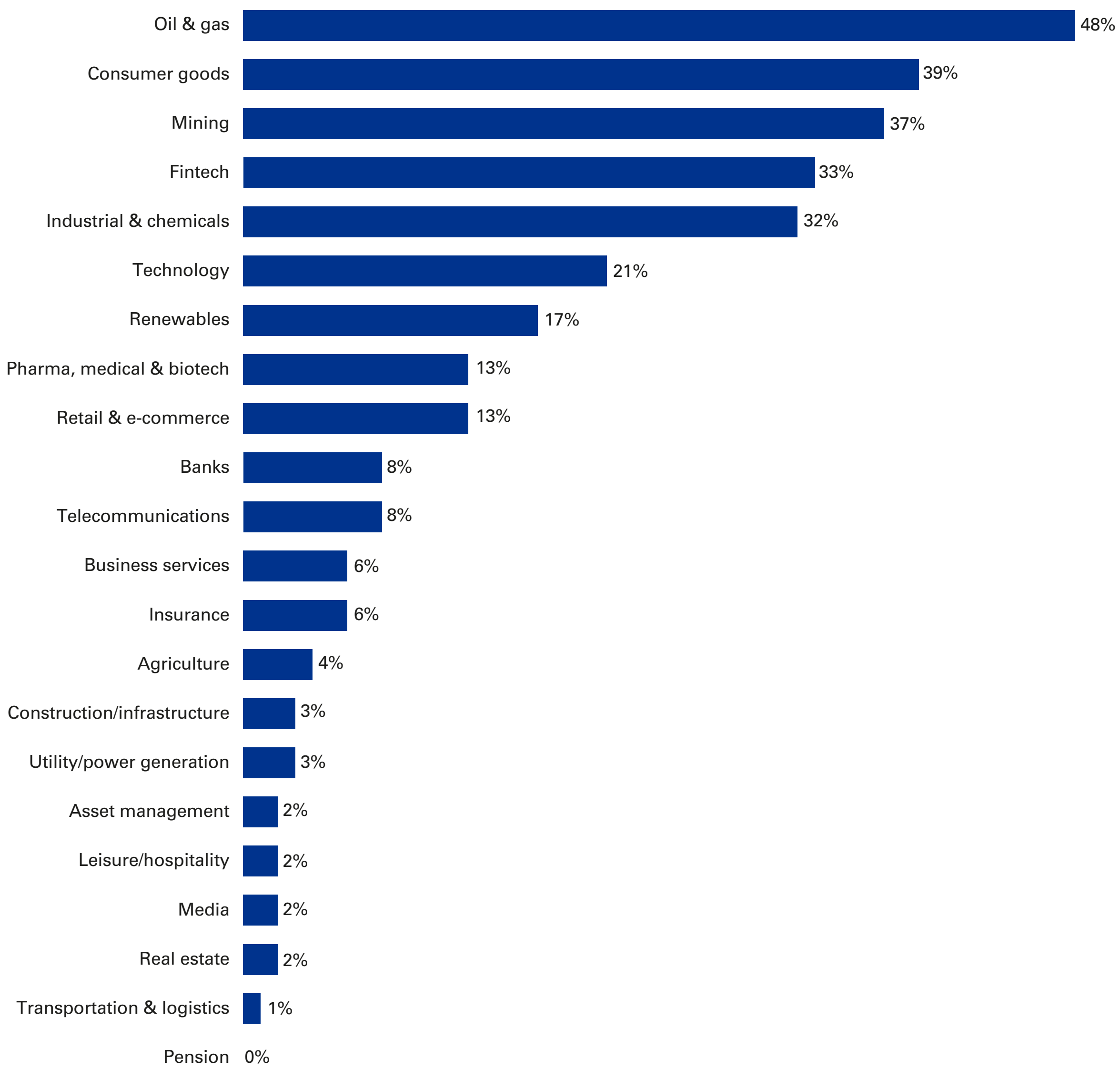
Are you considering injecting additional capital into an existing acquisition or investment?



If you are considering an acquisition or investment in Sub-Saharan Africa over the next two years, in which countries are you considering investing in? (Select all Sub-Saharan African countries that apply) – Top 10



In the scope of Sub-Saharan Africa M&A, which of the following sectors do you think will be the most attractive over the next two years? (Select top three)



products; Nigeria being the continent's biggest crude oil producer and South Africa controlling diverse mineral resources. Accordingly, this should shape deal flow in the next two years. Nearly half (48%) of respondents list oil & gas as the most attractive sector over this time horizon, followed by consumer goods (39%) and mining (37%).

Going green

The abundance of natural resources and vast land mass also makes SSA a prime destination for the development of renewables, which is experiencing rapid and transformative growth in the region as, notwithstanding recent inflationary pressures, long-term costs of these technologies have been declining.

Countries like Nigeria and Kenya are making significant strides in off-grid solutions in addition to utility-scale projects. Millions of people in the region now rely on solar and wind power for their basic energy needs, revolutionising access to electricity in remote areas, thanks in part to bodies like Nigeria's Rural Electrification Agency, whose Solar Power Naija programme provides grants to off-grid solar companies.

South Africa, the most advanced country on the continent in terms of renewables, has made significant progress in integrating hydro, solar and wind power into its energy mix. The nation boasts a considerable share of renewable energy sources and continues to invest in expanding its renewable infrastructure.

While clean energy development has been slower in Africa than in other regions, the growth path is clear, supported by strong political will and the immense potential to transform lives and improve health, social and economic outcomes through improved access to electricity. The International Renewable Energy Agency estimates that average annual investments in the space grew 10-fold from less than US$500m in the 2000-09 period to US$5bn in 2010-20. This will only continue to grow.

"Investments in the renewables segment will increase in the next five years. There are many regions where natural resource availability and land availability can be counted on," says the COO of a French PE firm that recently invested in Uganda.

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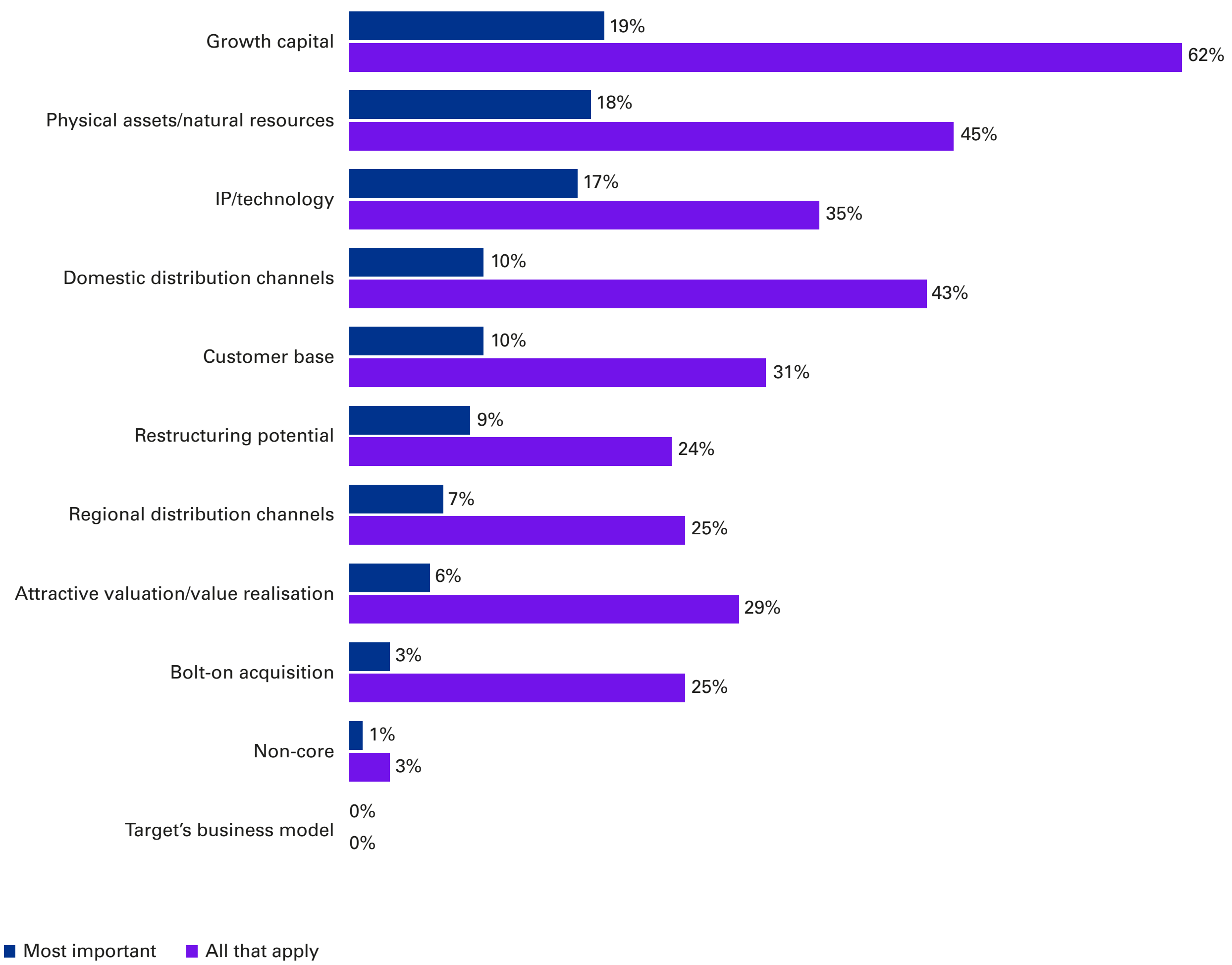
Tech adoption

As is to be expected, directing capital towards physical assets/natural resources is among the most important drivers for respondents' next SSA acquisition, cited by 18% of the overall sample. However, investor type has a strong bearing on what will motivate forthcoming deals in the region.

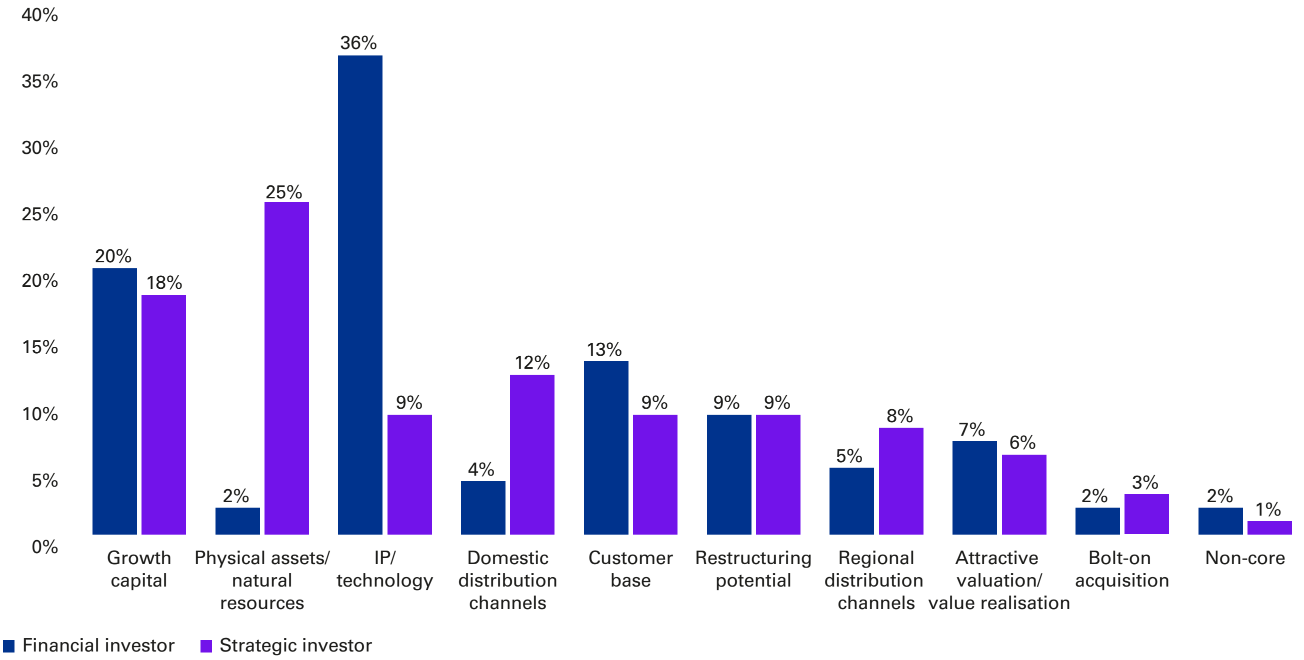
For 25% of strategic investors, the pursuit of physical assets is expected to be the biggest motivator. Financial investors are far more interested in the intellectual property/technology available via deals in SSA, with 36% of these respondents citing this as the primary driver for their next deal.

Technology will be fundamental to Africa's next step forward in terms of economic growth, shaping the continent's future in profound ways. Access to education and healthcare is expanding thanks to technology. Online learning platforms are breaking down barriers, enabling individuals in remote areas to access quality education. Likewise, telemedicine services are bridging the gap, bringing medical care to those who live far from doctors. With technology as a catalyst, education and healthcare are becoming more inclusive and accessible across the continent. In agriculture, technology such as drones and sensors are boosting crop yields.

What will be the most important driver for your next Sub-Saharan Africa acquisition or investment? (Select all that apply and most important)



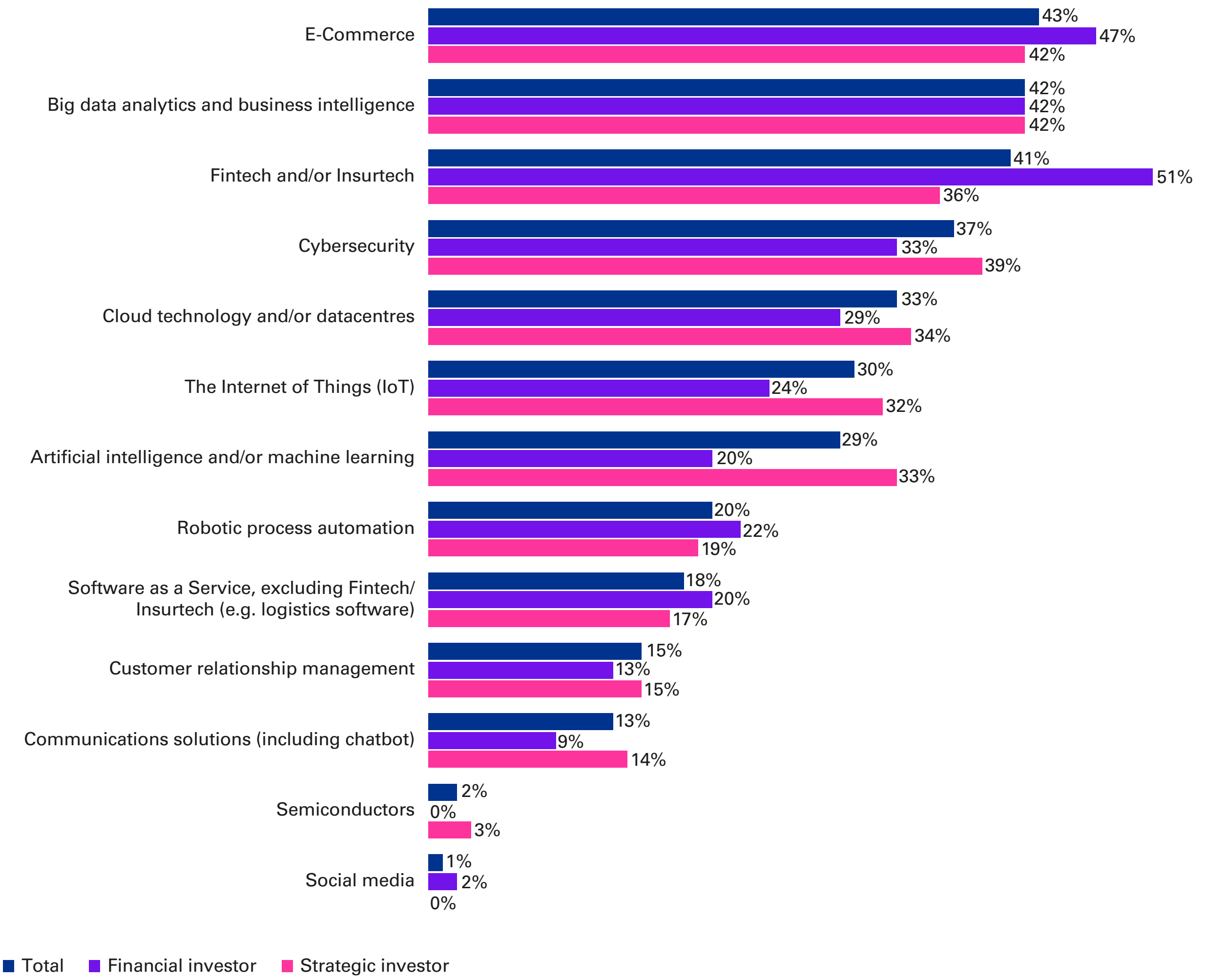
What will be the most important driver for your next Sub-Saharan Africa acquisition or investment? (Select most important)



Mobile-based e-commerce and fintech-enabled financial inclusion are also generating strong tailwinds. Mobile money services are a game-changer, enabling individuals to access financial services without traditional bank accounts. This breakthrough is contributing to poverty reduction and fostering economic growth by providing what are often highly unbanked populations with the means to save, transfer money and engage in formal financial systems.

Countries like Nigeria have low smartphone adoption rates compared with developed nations, with around half of Nigerians not owning such a device by some estimates. This presents plenty of headroom for growth in such services over the coming years according to the Nigerian Communications Commission (NCC).

Which areas of technology do you expect will provide the most attractive investment opportunities within Sub-Saharan Africa over the next two years? (Select up to four)



Almost half (43%) of respondents tell us that e-commerce is among the areas of technology they expect to provide the most attractive investment opportunities in SSA in the next two years, and fintech is close behind (41%). However, it is financial investors that are prioritising fintech. Nearly two-thirds (64%) of these sponsors say they expect their firm's interest in fintech assets in SSA to increase over the next two years, including 11% who anticipate a significant increase in interest.

This will of course be dependent on investors' core skill sets and will favour those equipped for early-stage investing. According to the Venture Capital in Africa Report 2022, the financial sector dominates VC fundraising deals with around 32% of volume, leaving information technology in second place with 16%.

"There are start-ups that will require capital to initiate new developments," says the managing partner of a financial investor in South Africa. "There are many fintechs in the region that have optimised their solutions in accordance with the latest market expectations and it is a segment that has delivered profits when other industries failed to remain sustainable."

In a sense, the fintech opportunity is a microcosm for the prospects across SSA. The region is rising fast and has ample development still to come, with more room for growth than arguably anywhere else in the world. From enabling technologies through to foundational sectors such as mining and oil & gas extraction, dealmakers are beginning to actively pursue deals again even amid a challenging macroeconomic environment.

"M&A had declined in the wake of the pandemic," says the executive vice president of a Brazilian strategic. "But since then, activity has picked up and there is tremendous growth in many industries. I expect the same trend to continue in the coming years."

Survey methodology

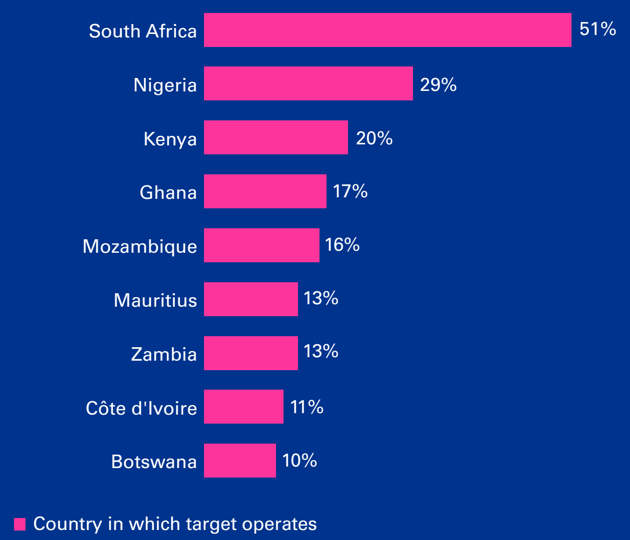
In H2-2022, 150 C-suite-level and other senior executives were surveyed based on their experience in dealmaking in Sub-Saharan Africa (SSA) over the last four years.

The respondent group was divided equally between domestic investors (i.e., based in SSA) and international investors (i.e., based outside of SSA). Among the domestic investors, 71% were strategic investors and 29% financial investors. Among international investors, 69% were strategic and 31% were financial investors.

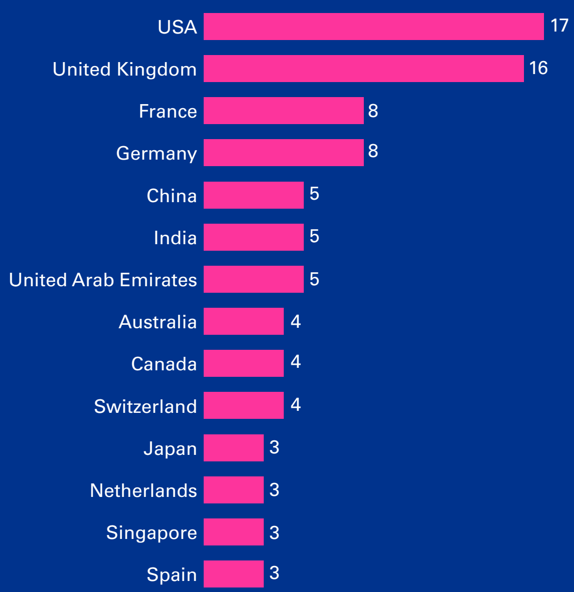
Results are anonymous and shown in aggregate. Where statistically relevant, findings split by respondent type are presented.

Throughout the report, the African regions referenced match the definitions used by the United Nations, except francophone SSA, which includes the following countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea, Mali, Mauritania, Niger, Senegal, and Togo. Francophone SSA in the report refers to Côte d'Ivoire only.

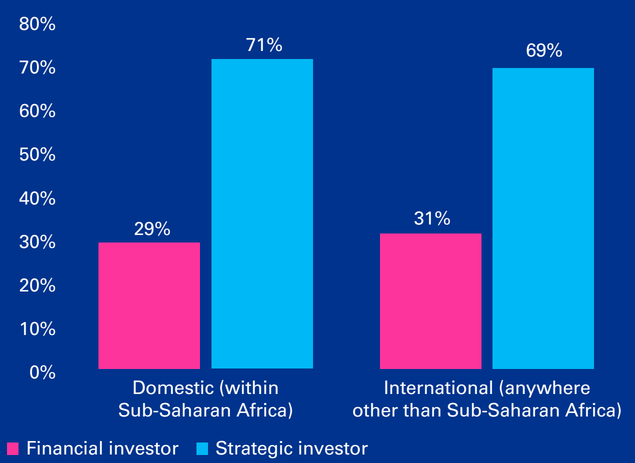
In which country was your most recent Sub-Saharan Africa acquisition? (State only one) – Top nine shown



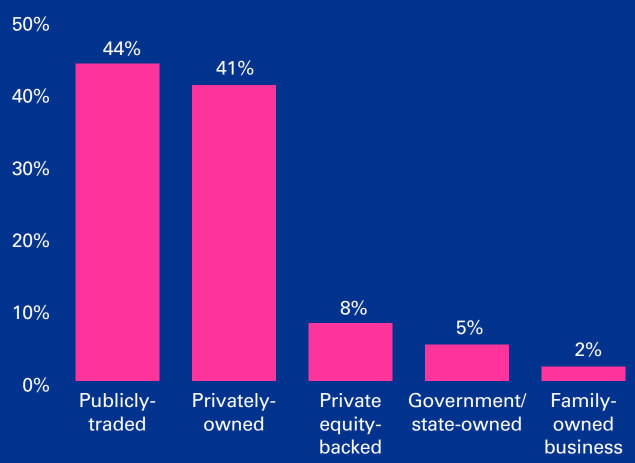
International respondent countries



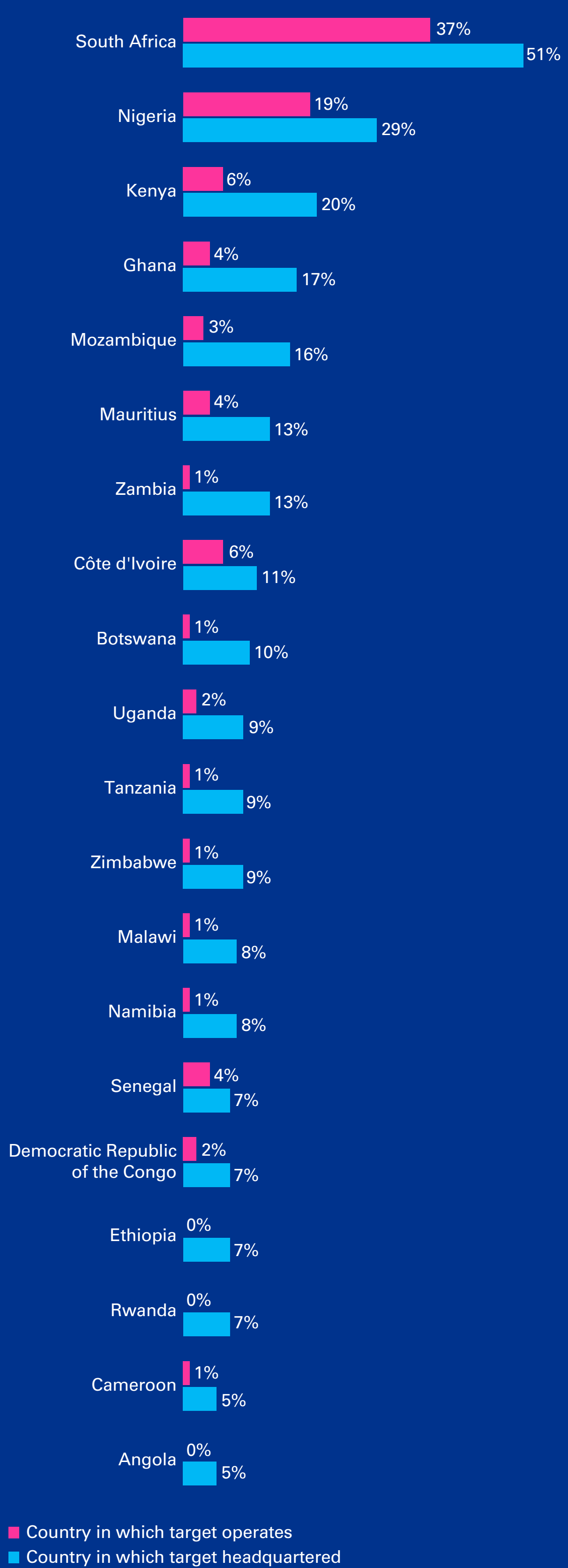
Foreign/domestic financial/strategic



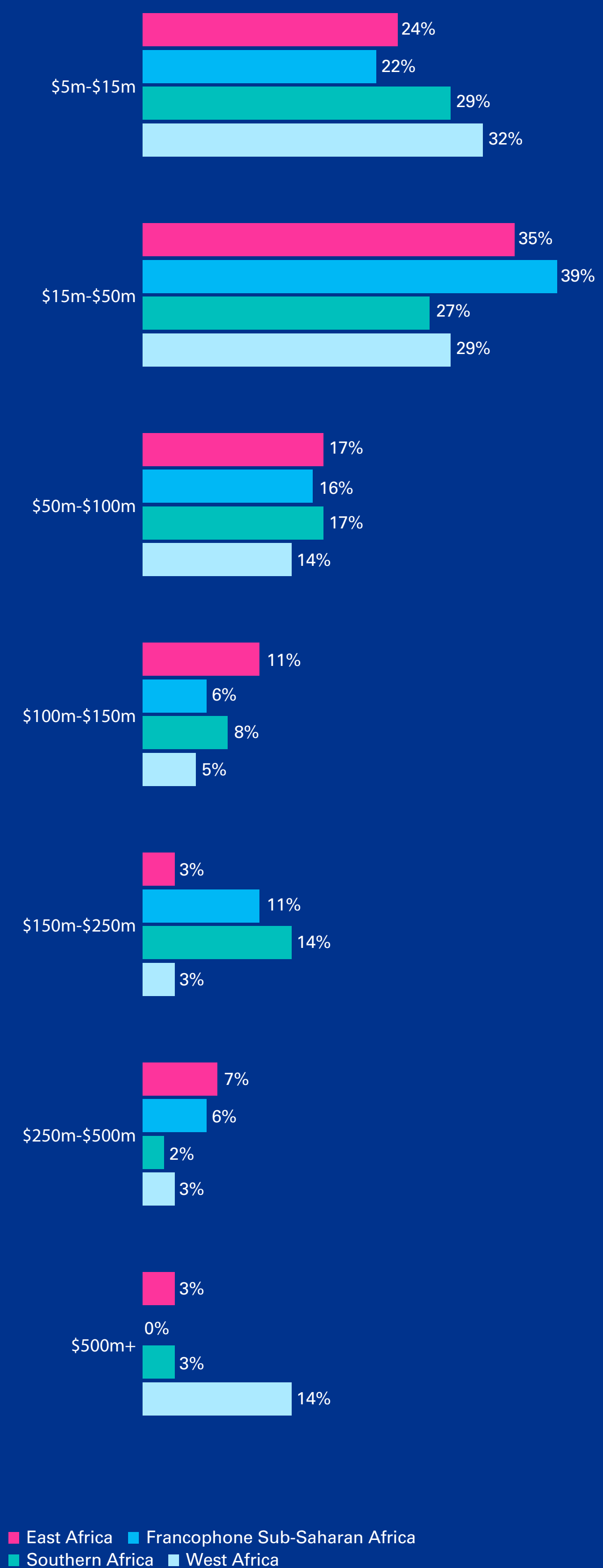
What is your firm's ownership structure?



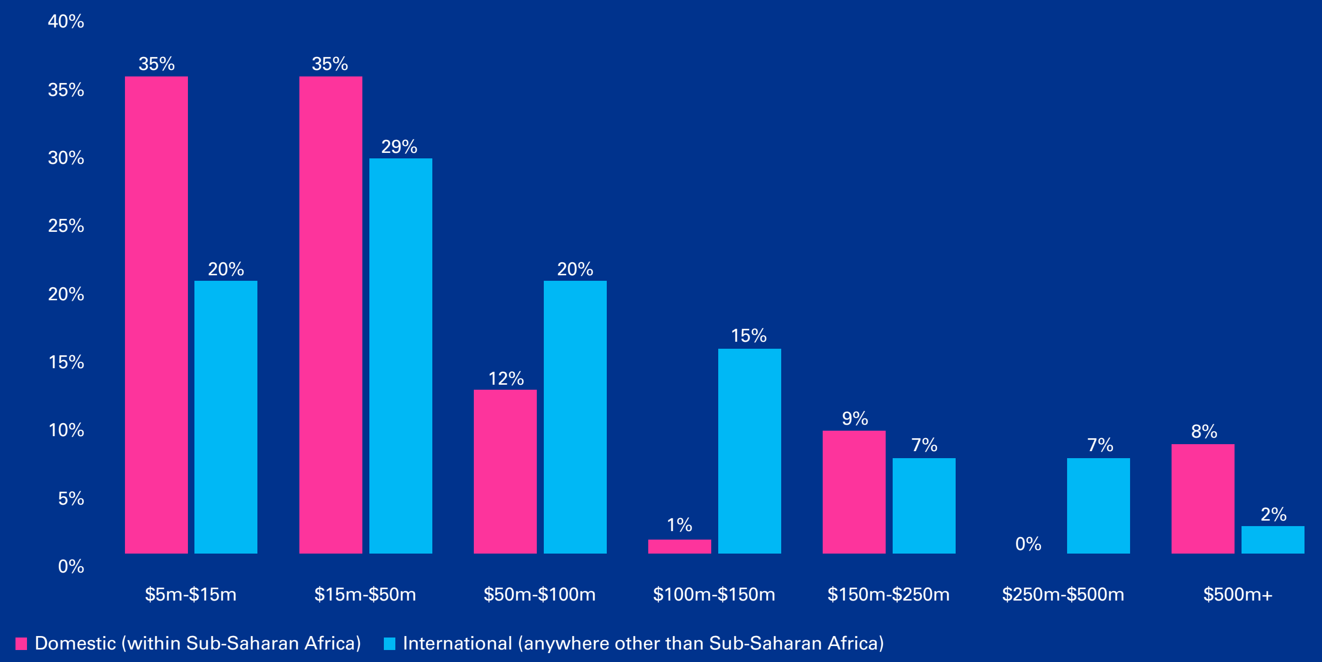
In which country was your most recent Sub-Saharan Africa acquisition or investment headquartered and in which countries did the target operate across SSA? (Top 20 shown)

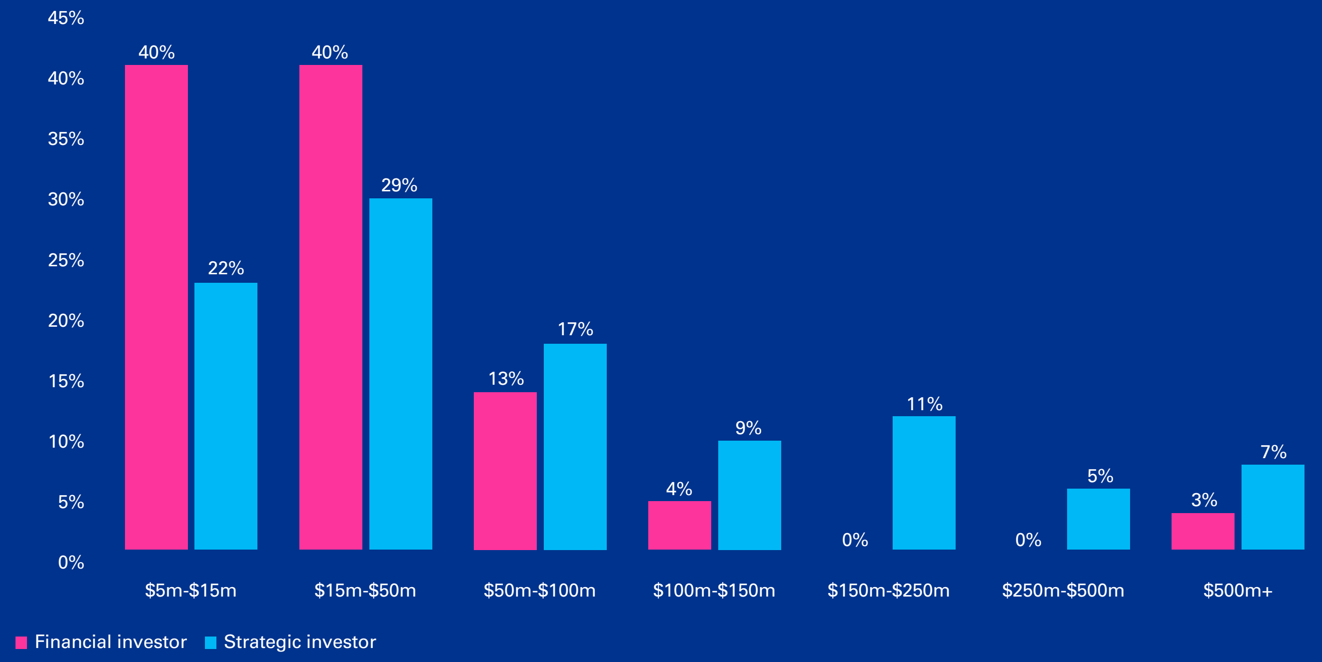


What deal-size was your most recent acquisition or investment in Sub-Saharan Africa? (Select only one)



What deal-size was your most recent acquisition or investment in Sub-Saharan Africa? (Select only one)





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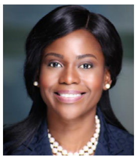

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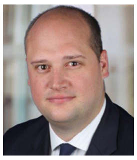

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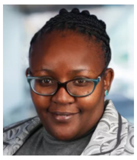

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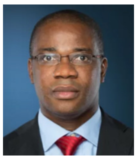

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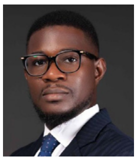

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