Africa Private Equity-backed IPOs

2010–2017

pwc

African Private Equity and Venture Capital Association

Foreword

The African Private Equity and Venture Capital Association (AVCA) and PwC are delighted to launch the first report analysing exits of African private equity (PE) portfolio companies on the global capital markets. This report provides a historic analysis of PE-backed initial public offerings (IPOs) of African portfolio companies, including companies with significant operations in Africa, between 1 January 2010 and 31 December 2017. We have examined a number of metrics including the volume and value of PE-backed versus non-PE-backed IPOs, pricing, and performance. While the capital markets have been an important exit route for private equity houses around the globe, we have noted that PE exits via an IPO in Africa have tracked below other markets. We hope this document begins a dialogue around measures to be taken to further drive African PE exits on domestic or international exchanges.

Methodology

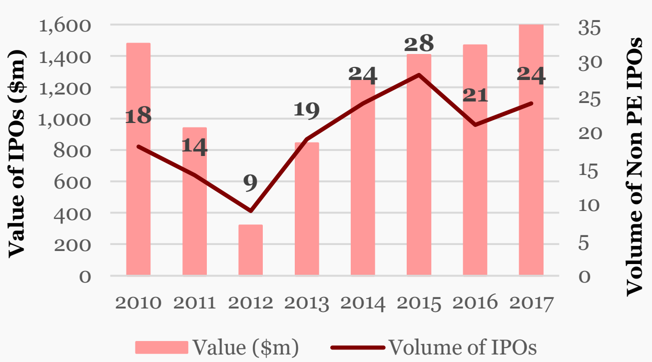
The report includes an analysis of IPOs on African exchanges and IPOs of African companies on exchanges outside of Africa between 1 January 2010 and 31 December 2017. All market data is sourced from Dealogic and has not been independently verified by PwC or AVCA. An IPO has been considered to be “PE-backed” when a financial sponsor classified as a private equity firm had direct influence over the issuer through equity ownership pre-IPO. It also includes investment holding companies and investment structures that operate in a private equity capacity.

PE and non-PE-backed IPO activity (2010-2017)

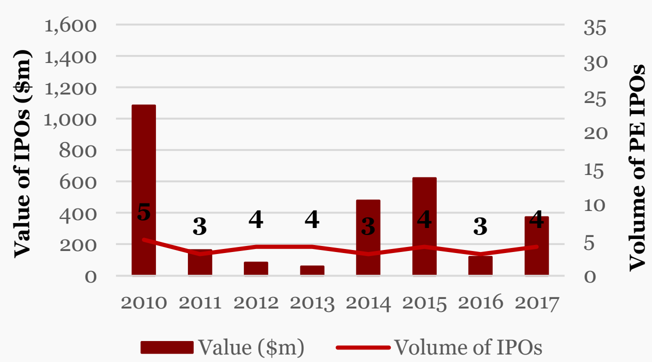
Historically, non-PE-backed IPOs have formed the bulk of IPO activity in Africa, with other exit routes such as sales to strategic investors or secondary sales to other PE or financial investors, proving more popular for PE investors. Over the period from 2010 to 2017, PE-backed IPOs as a percentage of total IPOs averaged just 16% in terms of volume and 23% in terms of value; in comparison, over the same period, PE-backed IPOs in the United States and the United Kingdom averaged 39%[1] and 36%[2] in terms of volume, respectively, and 44%[1] and 45%[2] in terms of value, respectively.

The largest number of African PE-backed IPOs, by both volume and value, was in 2010, with five IPOs valued at $1.1bn. This included the single largest PE exit by value, the $681m IPO of Life Healthcare Group on the Johannesburg Stock Exchange (JSE) by Old Mutual Private Equity and Brimstone Investment Corporation (Brimstone). Second in terms of value of PE exits was 2015 at $620m, which included the $334m May 2015 IPO of Integrated Diagnostics Holdings on the London Stock Exchange (LSE), an exit by Abraaj Capital Ltd (Abraaj).

Non-PE IPO activity



PE IPO activity



Top five exchanges for Africa PE-backed IPOs by value (2010—2017)

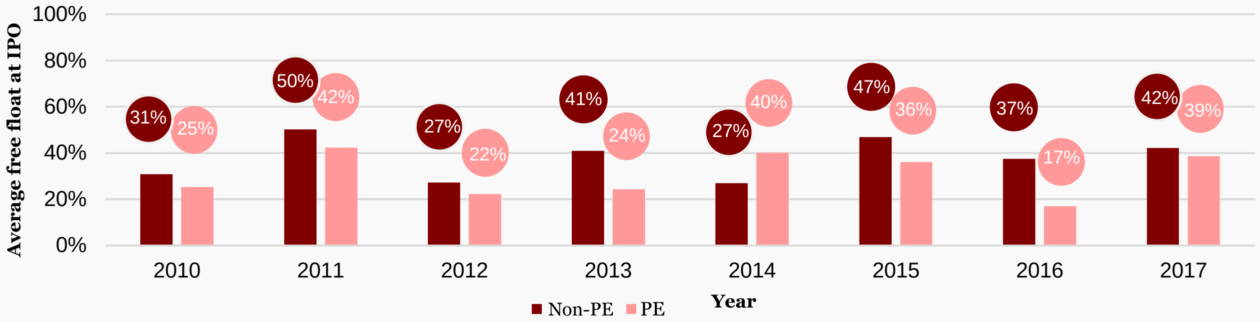
As with equity capital markets activity in general, the JSE has led African exchanges as an exit destination for PE-backed IPOs in terms of value. North African exchanges, including the Egyptian, Casablanca and Tunis stock exchanges, occupied the next spots after the JSE in terms of value of PE-backed IPOs. Outside of Africa, London leads as the preferred destination for PE exits of African portfolio companies.

Exchange	Number of IPOs	Total IPO proceeds ($m)
JSE	9	1,869
London Stock Exchange (LSE)	2	600
The Egyptian Exchange (EGX)	2	307
Bourse de Casablanca	4	204
Bourse de Tunis	9	198

[1] PwC US Capital Markets Watch and Dealogic for IPOs from 2010-2017. Excludes non-US offerings, non-SEC registrants, SPVs, closed-end funds, offerings with deal values less than $25 million, and offerings that took place on OTC or pink sheet exchanges. All dual listed IPOs include the US portion only for deal value. Proceeds exclude overallotments.
[2] *Private equity-backed IPOs: 1 January 2009–31 December 2017*, British Private Equity & Venture Capital Association (BVCA) in association with PwC

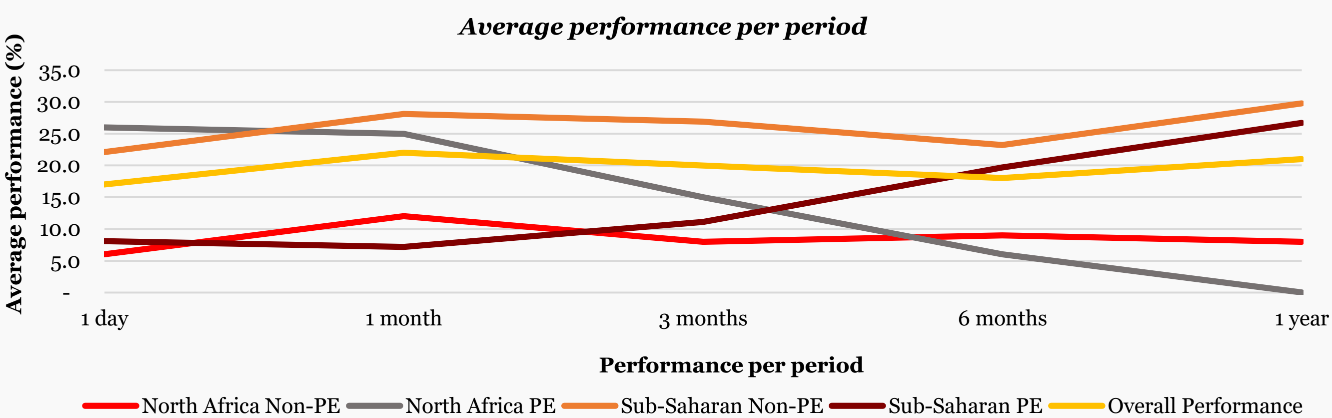
Average free float at IPO (2010–2017)

A comparison of free float between PE and non-PE-backed IPOs indicates a slightly lower free float for PE-backed exits during the period, which may suggest a strategy of private equity firms exiting investments in stages. Examples of phased exits include Actis LLP's (Actis) partial exit from Edita Food Industries in its 2015 IPO and Abraaj's partial exit in the 2016 IPO of Cleopatra Hospital.



Average performance post IPO (2010–2017)[3]

In comparing share price performance of IPOs over a one-year time horizon from listing date, sub-Saharan African (SSA) PE-backed IPOs outperformed their North African counterparts, with an average increase from offer price of +27%, compared to 0% for North African PE-backed IPOs. The lower average performance of North African PE-backed IPOs may be related to economic impacts and market volatility following political and security events in the region, which began in 2011. Post-listing performance of North African non-PE IPOs appears relatively more stable over the period, though this is driven by strong price performance of three IPOs launched in H2 2016 and H1 2017 after regional markets had regained some stability. Though a gap in price performance is observed for SSA PE-backed IPOs, as compared to SSA non-PE IPOs, over the first three months post listing, this gap narrows significantly over the one-year time horizon.



[3]Average performance analysis has been performed on an unweighted basis in terms of relevant currency of quoted price. Geographical segmentation is based on exchange nationality, or nationality of incorporation when listed on a non-African exchange. The analysis omits IPOs for which share price information is unavailable.

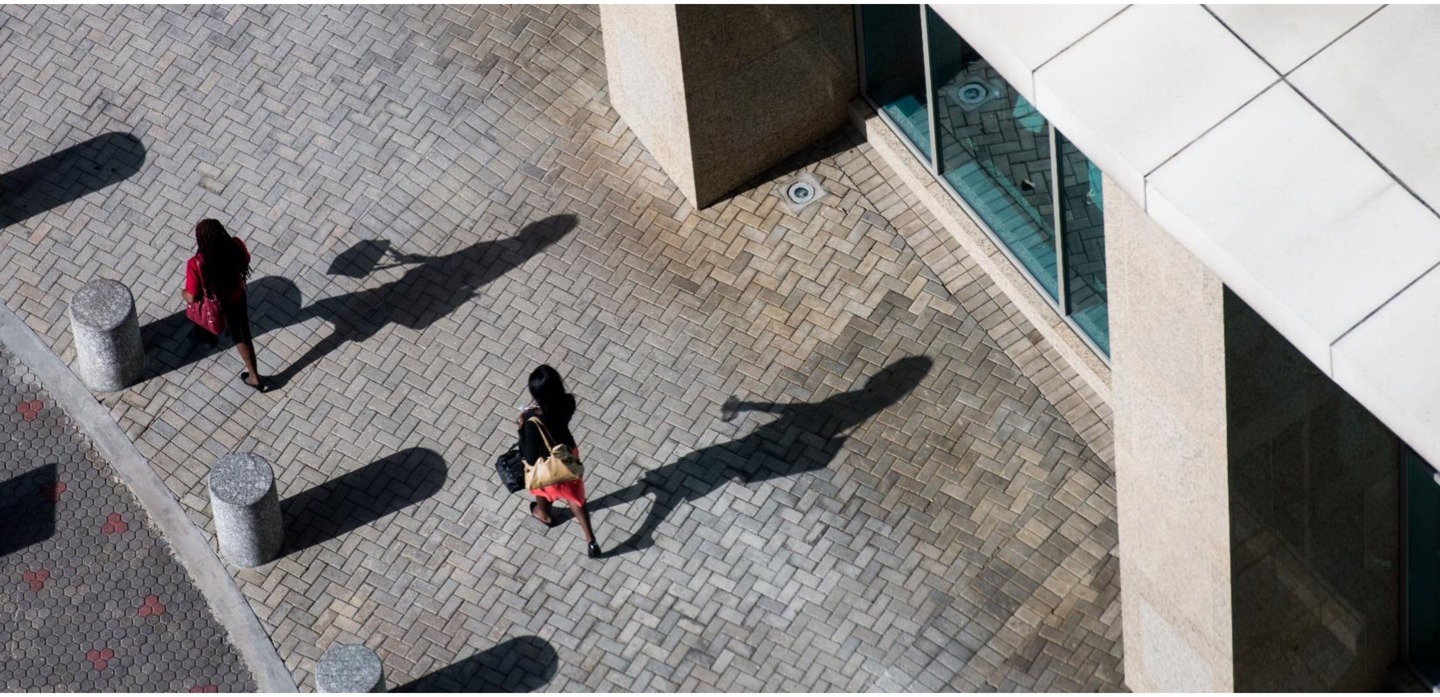
Top five PE-backed IPOs by value (2010–2017)

Company	*Exchange*	*IPO date*	*Proceeds raised ($m)*	*Financial sponsor(s)*
Life Healthcare	JSE	June 2010	681	• Mvelaphanda Group • Old Mutual Private Equity • Brimstone
Alexander Forbes	JSE	July 2014	348	• Actis • Ethos Private Equity • Harbourvest Partners
Integrated Diagnostics Holdings	LSE	May 2015	334	• Abraaj
AYO Technology Solutions	JSE	December 2017	328	• AEEI
Edita Food Industries	EGX & LSE	April 2015	267	• Actis

Top five volume of IPOs per PE fund manager (2010–2017)

Abraaj and Actis led the field of financial sponsors in terms of volume of PE exits via IPOs between 2010 and 2017 with three IPO exits each, while Actis raised the highest proceeds, primarily driven by the 2014 $348m IPO of Alexander Forbes and the 2015 $267m IPO of Edita Food Industries.

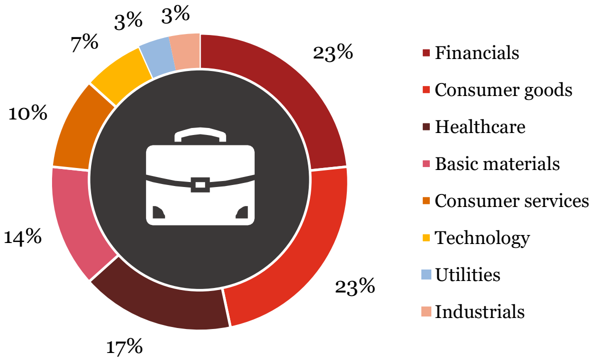
PE Fund Manager	Number of IPOs	Total IPO proceeds ($m)
Abraaj	3	396
Actis	3	949
AfricInvest	2	29
AEEI	2	368
Ethos Private Equity	2	473



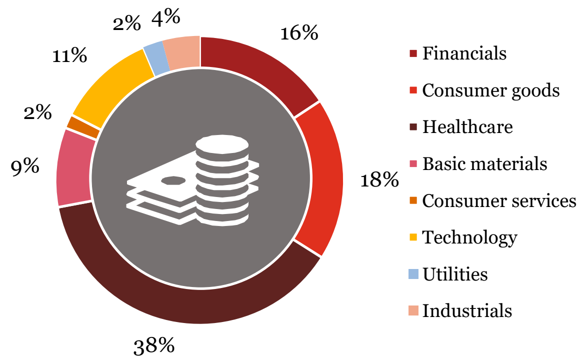
Volume and value of PE-backed IPOs by industry (2010–2017)

Over the period 2010 to 2017, the consumer goods sector represented the largest number of African PE-backed exits on the capital markets, with seven IPOs raising $544m, largely driven by the 2015 Actis exit of Edita Food Industries via a dual listing on the EGX and LSE, raising $267m. Next was the financials sector with seven IPOs raising $468m. Included in these proceeds was the 2014 $348m return of Alexander Forbes to the JSE, which involved an exit by Actis, Ethos Private Equity, and Harbourvest Partners. In terms of value, the healthcare sector represented the highest proceeds raised, with $1.1bn, or 38% of all proceeds raised between 2010 and 2017. Of the $1.1bn raised, Life Healthcare Group's 2010 listing on the JSE accounted for over 56% of the proceeds raised.

Volume of PE-backed IPOs by industry (2010–2017)



PE-backed IPO proceeds by industry (2010–2017)



A conversation with Nimit Shah, Partner at Helios Investment Partners

In May 2018, Vivo Energy closed on the largest Africa-focused IPO since 2005 via a dual listing on the JSE and LSE, raising nearly £650m against a valuation of approximately £2bn. The IPO of Vivo is the first significant float of an Africa-based business on the LSE since Seplat's 2014 IPO, and the first PE exit via an IPO on the LSE and JSE.

We spoke with Helios Investment Partners (Helios), who prior to the IPO owned 44% of Vivo, on a variety of matters, including what contributed to the success of the deal, and what drove the decision to pursue an IPO as an exit route.

Helios – Vivo Energy IPO

While there has been a great deal of discussion about exits of African investments through an IPO, these are still very much in the minority in practice. How did you come about deciding on an IPO as an exit route?

In general, our strategy is to focus on building market-leading platform businesses in core economic sectors in key African markets, with an emphasis on portfolio operations to drive value. Vivo is a good example of this given their market leadership position in the 15 countries where they currently operate.

It took us a significant amount of effort to get there: to create the investment opportunity (worthy custodian for Shell carve-out), further build the brand leveraging quality co-shareholders, institute a world-class governance structure, and hire qualified and experienced management to execute the growth plan. Once we completed these, a wide range of liquidity options opened up, including the IPO route.

We believed the company was ready, and had a strong equity story to attract interest from public market investors, featuring a leading pan-African retail platform operating at global standards and future inorganic growth opportunities by creating liquidity in shares.

What other options were you considering as an exit route, in addition to an IPO?

A variety of exit options were considered, however, we believed an IPO was the best option given Vivo's strong equity story. In addition, we believed the company was ready to operate as a public company.

This is your first successful exit through an IPO. What are some of the key lessons learned? What was the most significant challenge and the most significant enabler?

We are proud of what we collectively accomplished: the first company comprising only pan-African operations to list in London, the first dual JSE and LSE IPO, the largest UK IPO on the premium segment in 2018 (as of offer date) and the largest UK listed African IPO since 2005.

However, an IPO was indeed challenging. There were few peers to benchmark against, and we were accessing the market at a period that was quite volatile. The key enabler for us was the relatively simple business model, the strong management team and their track record of delivering. The company also experienced strong double digit US-dollar growth in its track record.

Finally, corporate governance was a key priority. The company was awarded the ISO 37001 - Anti-Bribery Management System certification, which demonstrates that the company has put in place internationally recognised good-practice and anti-bribery controls. This was the first company operating in Africa to be awarded this certification and the sixth globally.

What is your outlook on an IPO as a viable exit route for PEs with African portfolio companies? Are there some markets that you believe to be better suited than others, and what do you think about the potential for exits on African exchanges?

We can't speak generally to the broader market without full context, however, we review all exit routes, including IPOs. Past IPOs have yielded success in liquidity to large, global investors. Given the size and expected global appetite, we focused on LSE and JSE for Vivo.

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Acknowledgements

We would like to thank Esther Adegunle, Yemi Akoyi, Adebayo Araoye, Dan De Combes, Nikita Francis, Awin Mankilik, Oluwaseun Odusanya, Orafiri Ogan, and Ifeoluwa Popoola from PwC for their important contributions to this publication.

African Private Equity and Venture Capital Association

AVCA: Championing private investment in Africa

The African Private Equity and Venture Capital Association is the pan-African industry body which promotes and enables private investment in Africa. AVCA plays an important role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research, best practice training programmes and exceptional networking opportunities.

With a global and growing member base, AVCA members span private equity and venture capital firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations.
This diverse membership is united by a common purpose: to be part of the Africa growth story.

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