KPMG and EAVCA

Private Equity Sector Survey of East Africa for the period 2017 to 2018

June 2019

kpmg.com/eastafrica

Table of Contents

Foreword

Dawn in the Savannah

This is the third time that EAVCA's and KPMG's partnership has developed the Private Equity (PE) East Africa Survey. This year's Survey contains information on PE activity over the period 2017 to 2018 as well as the history from 2007. Most importantly, we are beginning to gather credible insights into the fund raising strategies, investments, exits and performance over an 11 year period.

The investment landscape in East Africa remains vibrant as witnessed by an increase in financial and strategic investors looking to enter the region. This is partly driven by efforts of East African Governments to increase private participation in economic development, industrialisation and creation of policies that enhance the macroeconomic environment. Throughout 2018, the East African regional block accounted for 3 of the top 10 fastest growing economies of Africa, signaling robust growth opportunities for investors.

The East Africa's PE landscape witnessed a bounce back 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 the 2015 to 2016 Survey. This is a reflection of increased investor interest and confidence in East Africa. Entry of the Ethiopian focused PE funds during the period 2017 to 2018 has helped grow the investment profile of Ethiopia as a PE destination, coming in third place behind Kenya and Uganda on the number of deals closed.

The challenging fundraising environment at a global level did not spare East Africa, as most funds with a keen interest in East Africa recorded a final close, albeit below their initial target. In all, USD 579 million was raised during the period 2017 to 2018, by both first time and follow on funds. This was a decline from the USD 1.1 billion of funds raised for East Africa over the preceding two year period i.e. 2015 to 2016. While most of the source of funds raised have been international, there was a 16% increase in local/regional funds raised. This is welcome news for the region's PE industry, as we seek to diversify our sources of funds. The bulk of domestic capital was raised from the region's pension funds who have actively been looking to get into the PE asset class as a platform to diversify their portfolio risk.

As PE sector moves towards maturity, we expect to see more deal activity in emerging sectors such as TMT, which is taking central stage in shaping all the industries regionally and globally. However, during 2017-2018, Financial Services, ENR and Manufacturing sectors continued to boast the highest number of deals closed at 27, 25 and 21, respectively. Since 2007, the total value of funds invested versus raised remains at USD 2.7 billion versus USD 3.7 billion, respectively, indicating plentiful dry powder yet to be deployed by the PE funds in East Africa.

Finally, EAVCA and KPMG would like to thank all respondents and advertisers who took part in our Survey. We fully acknowledge this Survey is not a full representation of the PE sector in East Africa and remain optimistic that all funds will be taking part in future, to help achieve a complete picture which will assist the PE sector with more successful fund raising, investment activity and exits.

We hope this report will further reinforce the regions positive outlook and create more inbound investment appetite.

Happy reading!

Sheel Gill
Partner, Deal Advisory
KPMG East Africa
E: sheelgill1@kpmg.co.ke

Eva Warigia
Executive Director
East Africa Private Equity and Venture Capital Association (EAVCA)
E: eva@eavca.org

1 Highlights

Highlights

Fund raising

- It is estimated that of the total USD 6.4 trillion PE funds raised globally between 2007 and 2018, approximately USD 33.1 billion is earmarked for Africa and USD 3.3 billion for East Africa.
- 47% of the respondents noted, their main source of funds were investors from Europe and North America largely comprising of DFIs, High Net Worth individuals/family offices, along with others such as asset managers and international and local pension funds.
- There was a 20.4% increase in respondents opting to source funding from East Africa.

Investment activity

- A total of 190 PE backed deals in East Africa have been reported during the period 2007 to 2018 with an estimated value of over USD 2.7 billion. Over both 2017 and 2018, 84 PE backed deals were reported at an estimated value of USD 1.4 billion. This implies an estimated USD 0.6 billion (total raised USD 3.3 billion versus total invested USD 2.7 billion) of dry powder yet to be deployed by the PE sector in East Africa.
- Average number of deals reported per year increased to 42 per year for the period 2017 to 2018 compared to 18 in 2015 to 2016. Similarly, average investment size increased to USD 37 million in 2017 to 2018 from USD 17 million in 2015 to 2016.
- Kenya remains the most popular investment destination in EA with Agribusiness, Financial Services and FMCG being the dominant sectors.

Exits and performance

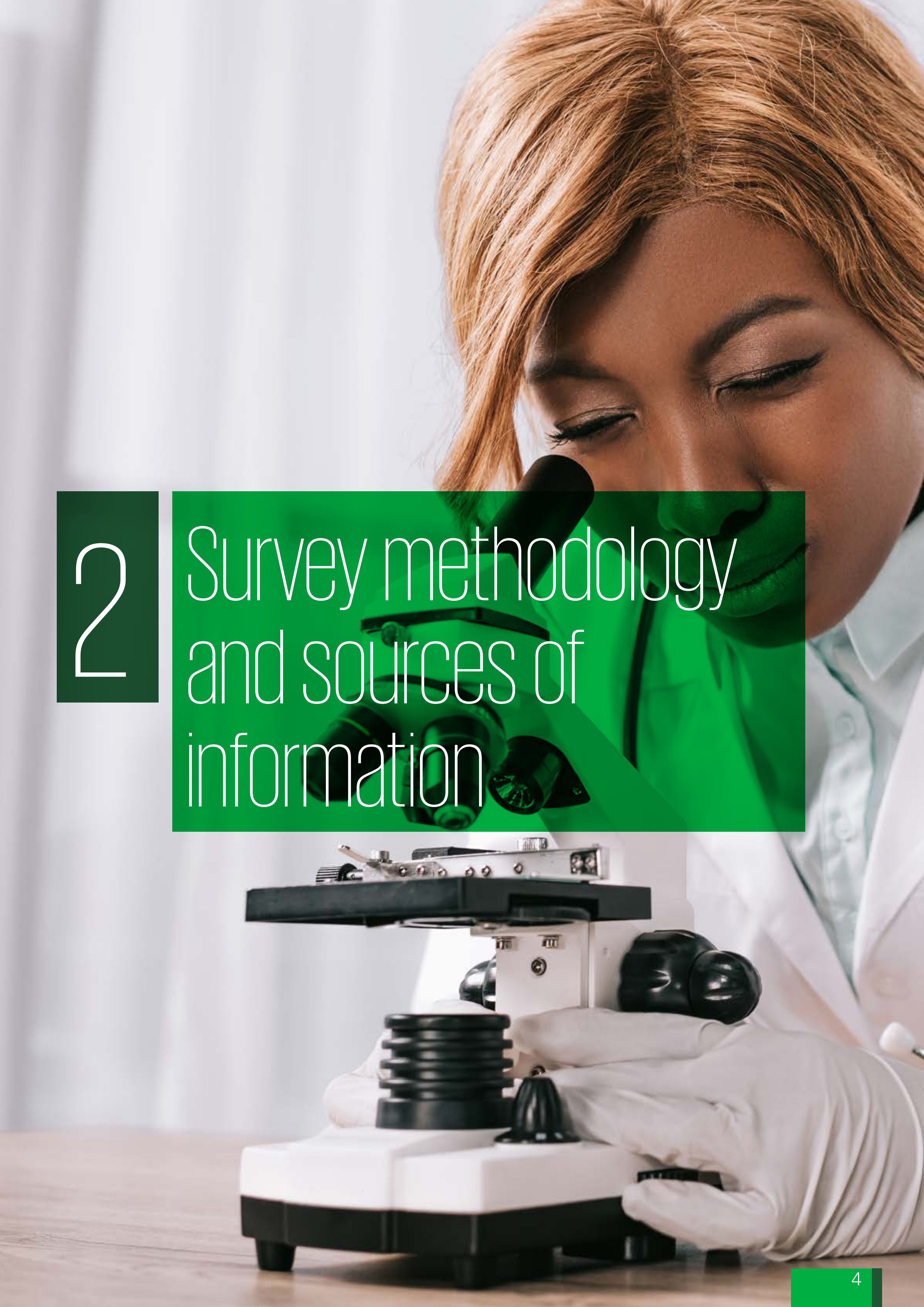
- Total exits over the period 2007 to 2018 were reported at 44, with 10 recorded during 2017 to 2018. The most active sector remains Financial Services which recorded 17 exits out of the 44 exits. There has been a decrease in exits over the last two years to 10 compared to 13 over the period 2015 to 2016.

Exits and performance (continued)

- Secondary exits continue to lead as the preferred mode of exit in the region with:
  - 10 of the 44 exits being secondary i.e. to financial investors,
  - 18 through sale to strategic investors,
  - 11 through share buy backs,
  - 3 through IPO, and,
  - 2 through others means.
- There have been only 10 exits over 2017 to 2018 versus investment of 84 deals. This creates a large opportunity for a secondary private equity market.
- Based on the responses we received from 2015 to 2018, actual median gross IRR was 20% against a target of 23%. Moreover, of the 11 respondents only 3 responded achieving an actual IRR over their target.

Fund strategy: Investment professionals and ESG

- All of the respondents indicated they give environmental, social and governance matters very high importance during the life of the investment. Whereas ESG is part of the investment screening process, funds having a dedicated ESG team that focuses on setting and implementing ESG policies for their portfolio companies and funds having quarterly ESG report.
- The number of investment professionals employed by the East African PE funds local offices is estimated at 230 as at 2018 (280 as per our 2017 Survey). There has been an increase from an average of one to five per our 2017 Survey to 5 to 20 between 2017 and 2018. 13 respondents reported to have between 21% to 50% of employees being female.



2 Survey methodology and sources of information

Survey methodology and sources of information

Participant criteria

The principle source of the information for this Survey were responses to a Survey questionnaire received in May 2019. In addition, we have sourced publically available information on the private equity sector and deal activity in East Africa.

The Survey questionnaire was developed jointly by EAVCA and KPMG. The questionnaire had four sections: fund raising, investment activity, exits and performance and fund strategy.

For clarity, the guidelines for participants in this Survey were as follows:

- Have their principal business as the management of funds (third party and/or proprietary capital) for the provision of capital (equity and quasi equity) primarily to unlisted companies;
- Focus on investing via debt or equity or quasi equity in companies in East Africa, regardless of where the fund is managed;
- Employ investment professionals dedicated to the management of funds raised and deploy such funds through investments in East Africa; and
- Aim to generate returns mainly through sell of investments and/or impact/social developmental returns.

Survey methodology

The Survey was undertaken in May 2019 organized by EAVCA alongside KPMG. Data was collected through the use of KPMG's proprietary survey software – Global Compliance Confirmation System (GCCS).

In total, for the 2017 to 2018 Survey, there were 51 anonymous respondents. Of these 7 were duplicates, 8 completed the Survey and 36 partially completed the Survey. In cases of duplicate responses from the same fund, we selected the single most reasonable response in preparing the analysis contained in this report. We have discarded other duplicate responses in the analysis to avoid misrepresentation.

Names of all participants have been disclosed in the later pages of this Survey, however actual information of each respondent will remain anonymous.

Responses on exits and performance were largely incomplete, therefore, such information was analysed to the extent possible. We consider information on exits and performance as the most important element of a fund's life cycle.

Sources of information

Other sources of information, especially for deal activity and global and African funds raised, have been sourced from:

- Mergermarket
- Bloomberg
- Thomson Reuters
- NKC African Economics
- African Venture Capital Association
- Bain and Company Global Private Equity Report
- 2016, 2017 and 2018
- EAVCA deal tracker 2017 and 2018
- KPMG's Private Equity Industry Survey of East Africa for the period 2007 to 2016

CENTUM

Charting the next 50 years

Centum Investments Plc. (Centum) is redefining East Africa's deal space. Looking back, its 52-year track record as a listed investment holding company provides an audited record of investments and exits that is publicly available. It includes transactions over the past half-century that are some of the largest and most transformative in East Africa. Looking forward to the next 50 years, Centum will continue to position itself as *Africa's foremost investment channel*. In particular, the recent spin out of Centum Capital Partners (CCAP) into a subsidiary in April 2019 marks a key milestone towards realising that vision; CCAP is now attracting institutional capital to invest alongside Centum's balance sheet private equity portfolio.

CCAP has been part of Centum since 1967 as both the go-to local partner for companies seeking smart capital and proprietary networks, as well as the investment manager of choice for investors seeking to access East Africa's growth markets. Over a decade ago, the current team was reorganised into a dedicated department, signalling a transition in investment approach from a financial investor to one more actively involved in the management and sustainable growth of its portfolio companies. The team continues to uphold its longstanding value proposition to investees which leverages its local presence and deep operational capabilities to unlock value creation.

Opportunity

CCAP's investment team recognises that Africa, and particularly East Africa, is increasingly regarded as the world's next great growth story. According to the African Development Bank Group's (AfDB) East Africa Economic Outlook 2019, East Africa's economic growth in 2018 closed at a robust
5.7%—albeit a slight drop from the year earlier—it was higher than any other region on the African continent. The trend is expected to carry on in 2019 and 2020 (5.9% and 6.1% respectively).

In CCAP's opinion, East African economies are steadily emerging into private consumption and service driven economies whose GDP is driven on the demand side by high rates of domestic private consumption backed by favourable demographics, urbanisation and rising incomes. Market leaders within this region are poised to outperform their developed-market peers recording attractive growth rates in terms of revenue and annual returns.

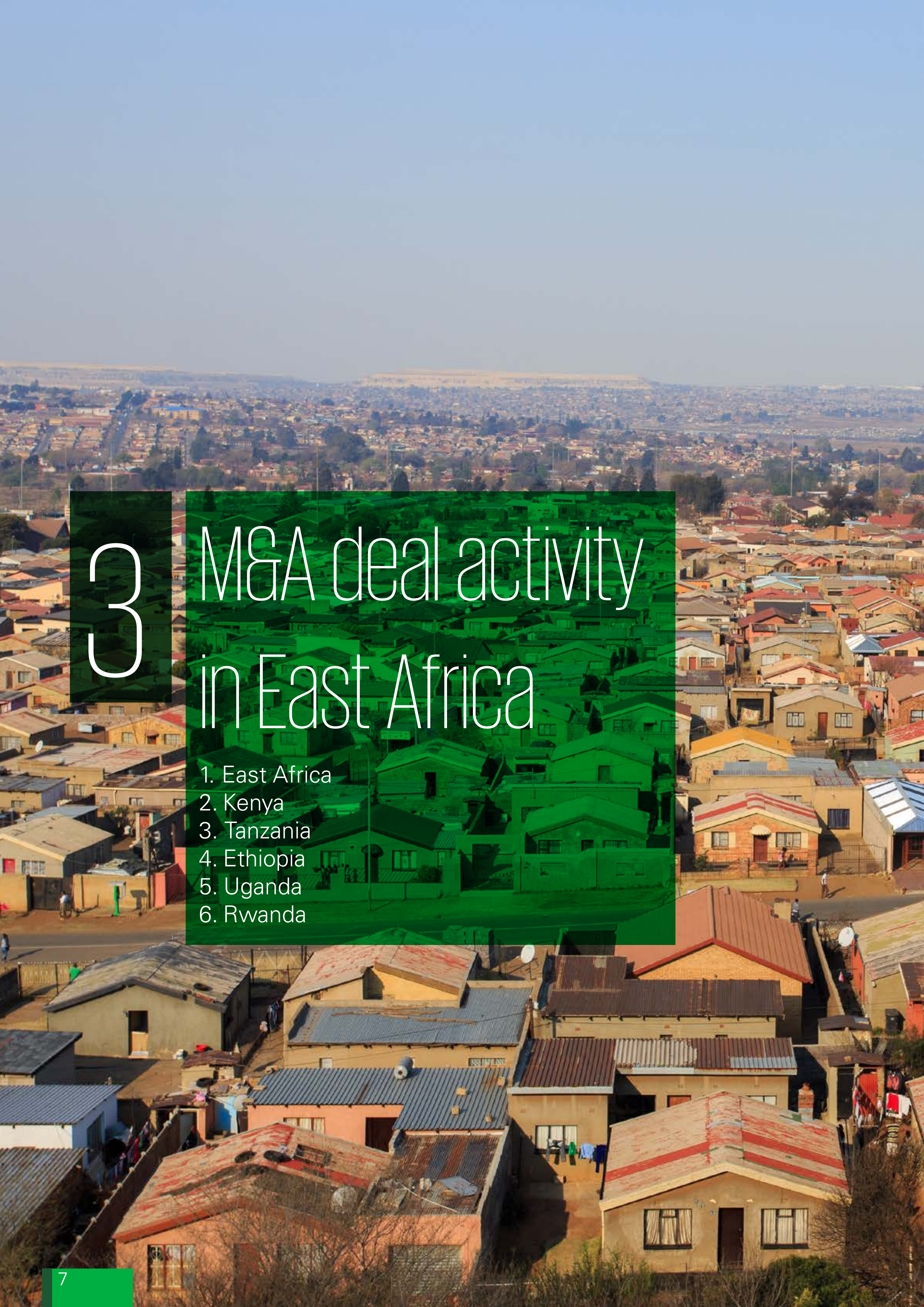
CCAP believes that market leaders within the East African space are primarily privately held local brands. In addition, regional public markets are not only underdeveloped, but also lack diversified financial instruments to drive value realisation. As a result, CCAP deems private equity investments as the most effective asset class in capturing the attractive prospects in the region.

Differentiation

While some global funds have invested opportunistically in East Africa's growth markets, this region is not their primary focus. As such, such funds typically lack the access to proprietary deal flow. On the other hand, regional or country funds are generally circumscribed to Kenya or Ethiopia. CCAP's regional experience, especially in expanding its portfolio companies' operations across the region, creates a more diversified set of geographies and target markets than peers.

While competition is expected to evolve over the coming years, CCAP's value proposition has been built and refined over half a century. Operational excellence and technical know-how goes beyond the core team and includes portfolio company managers, advisory boards and Centum's shared services. It also includes the entrepreneurial family business owners who we have invested in, worked with and shared in our success. Together we will chart the next chapter in East Africa's rise.

Tom Muchiri Kabuga | Chief Operating Officer
9th Floor, South Tower, Two Rivers, Nairobi

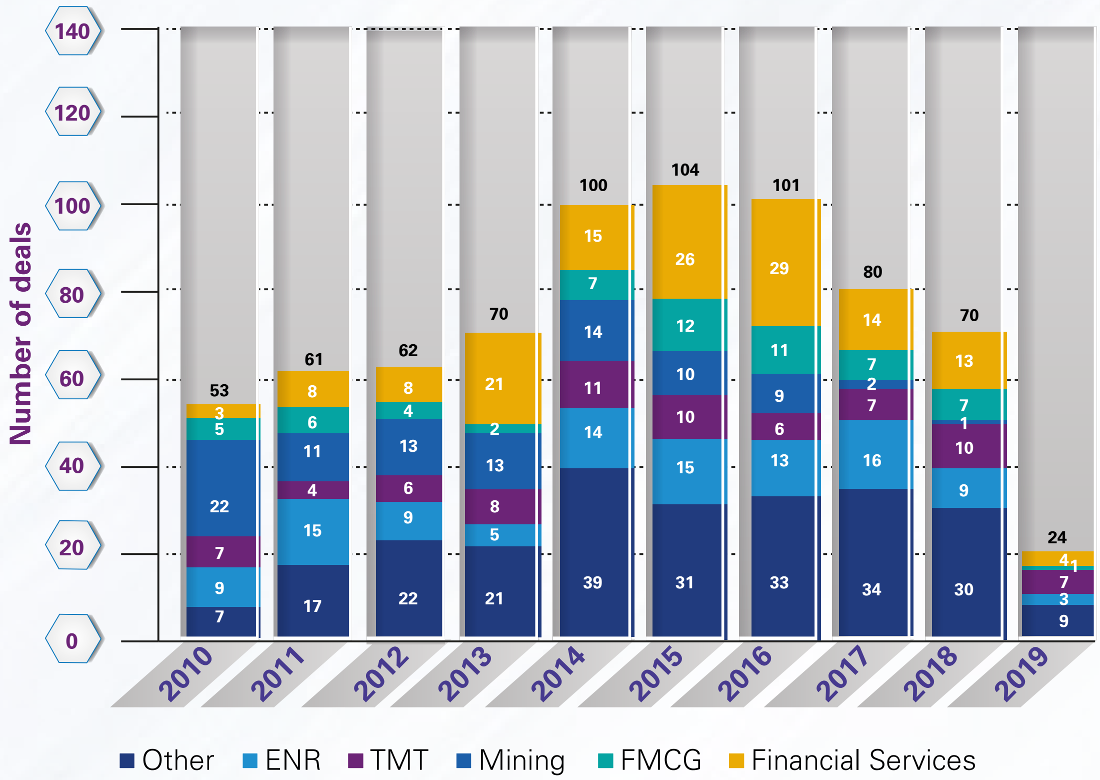


3 M&A deal activity in East Africa

1. East Africa
2. Kenya
3. Tanzania
4. Ethiopia
5. Uganda
6. Rwanda

M&A deal activity in East Africa – 2010 to H1 2019

East Africa M&A deal volume by sector (2010 - H1 2019)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

— Between 2010 to H1 2019 (April 2019) total reported deal in East Africa were 725 with a disclosed deal value of USD 23.9 billion.

— Annual reported deal volumes have steadily increased in the East Africa region from 53 in 2010 to 104 in 2015. However, there was a marked decline in reported deals completed and disclosed from 2016. We attribute this to the slight devaluation of local currencies against USD and longer than anticipated deal closure time frames.

— Reported deal volumes declined in 2017 (80) and 2018 (70) compared to 2016 (101). This can be attributed to the prolonged election period in Kenya in 2017. In addition, changes in government policies in Tanzania caused a general slow down in that economy.

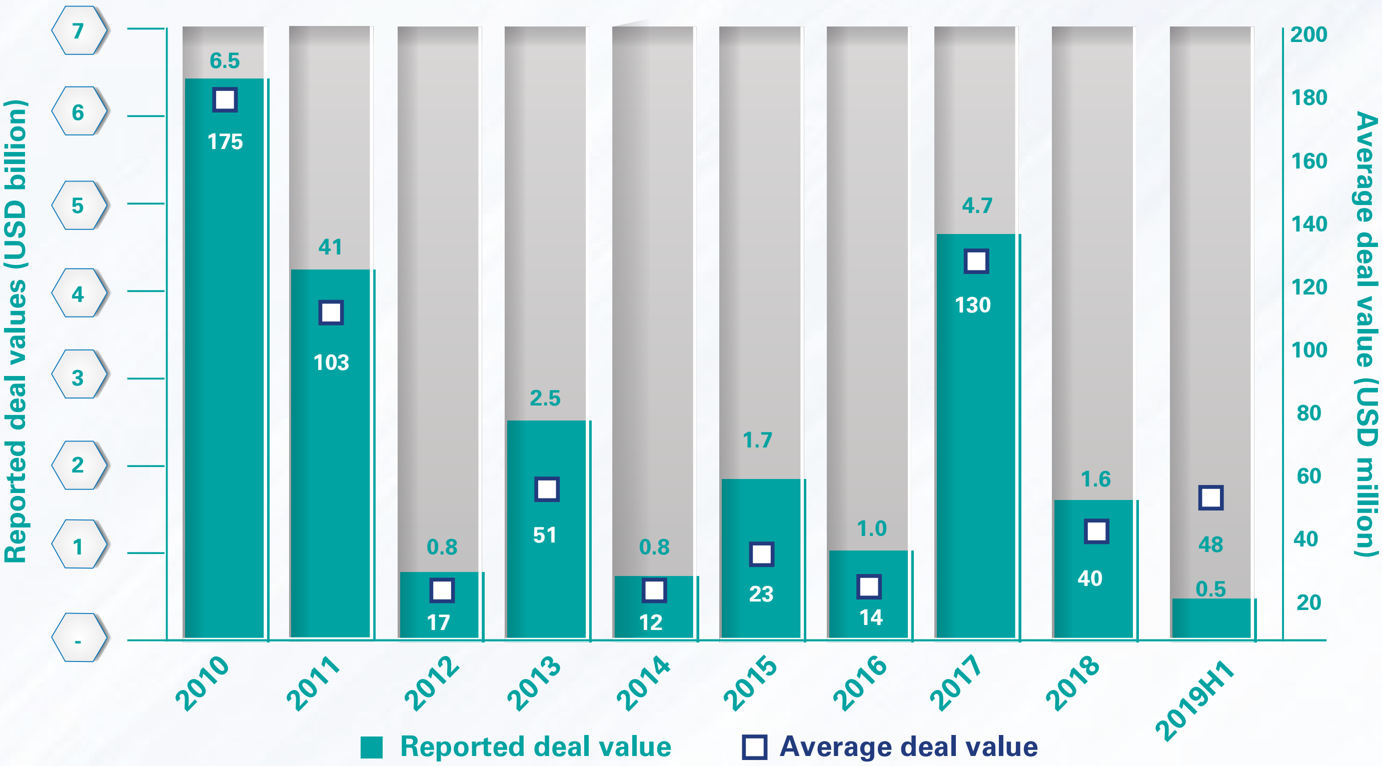
— The proportion of reported deals in the Financial Services sector to total deals has increased from 6% in 2010 to 19% in 2018. On average, the FS sector accounts for 18% of total deals from 2010 to H1 2019.

— Highest disclosed deal values in East Africa over a nine year period were in Energy and Natural Resources (USD 8.8 billion), Mining (USD 5.3 billion), TMT (USD 4.0 billion) and Agriculture (USD 1.1 billion).

— In 2017 and 2018, the highest value of reported deals is in 2017 at USD 4.7 billion. This was driven by the Vodacom Group Ltd (USD 2.6 billion) transaction in Kenya.

— Strategic investors dominate the large-cap deals in the East African region. PE deals are much smaller, as the sector is in a early/growth stage.

East Africa deal value and volume by year (2010 - H1 2019)

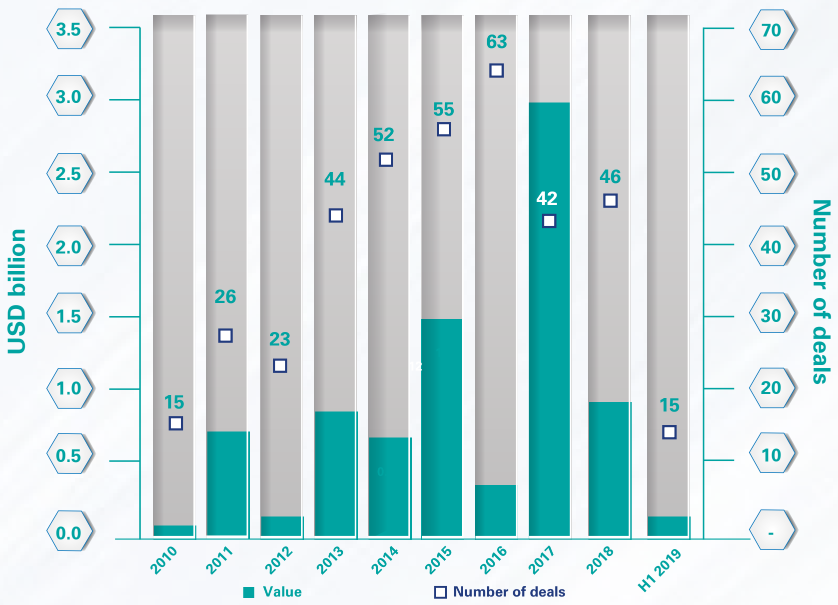


Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

M&A deal activity in Kenya - 2010 to H1 2019

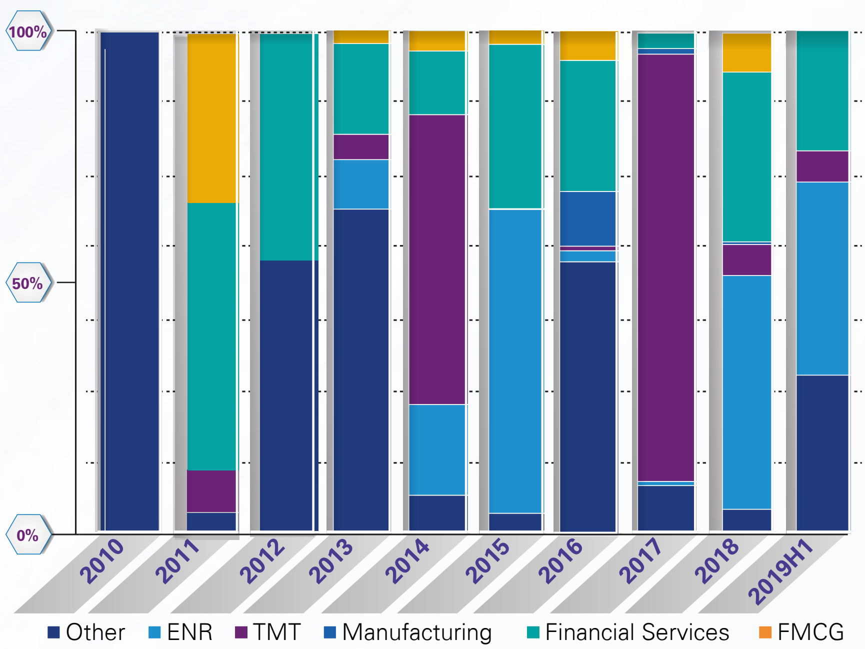
Kenya - Deal value and volume by year (2010 - H1 2019)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions

Kenya - Proportion of total deal value by sector (%)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

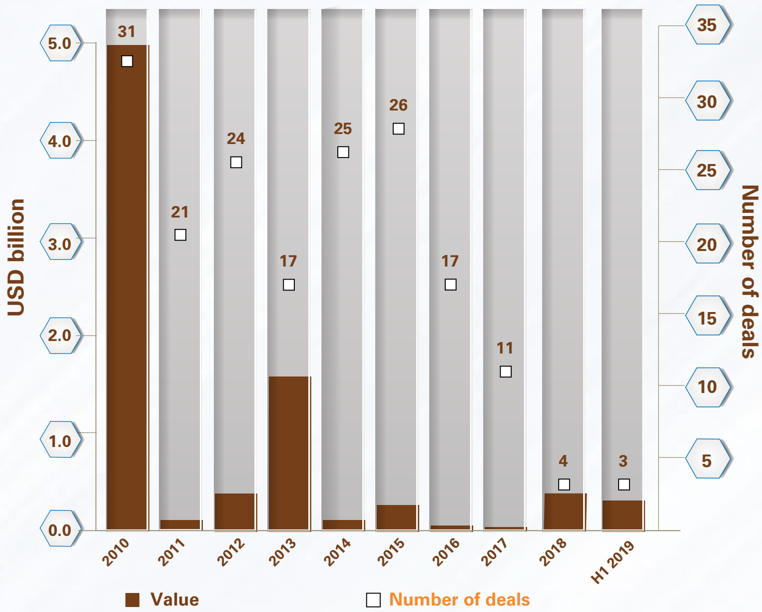
- Reported deal volumes in Kenya dropped in 2012 and 2017. The lull in 2012 and 2017 is largely attributable to national elections in those years. The number of reported deals in 2018 were 46 compared to 42 in 2017.
- The Financial Services sector in Kenya recorded the most deals at 107, followed by the Energy and Natural Resources sectors and TMT with 43 and 41 deals, respectively. On average, the Financial Services sector accounted for 26% of the total deals value and 25% of total deal volume (2010 to 2018).
- The first half of 2017 witnessed a substantial increase in the total reported value of deals, largely due to: the Vodacom Group Limited acquisition of Safaricom Limited (reported at USD 2.6 billion) and the Abraaj Group investment in Avenue Hospitals reported at USD 171.3 million.

Top 10 Deals by Sector in Kenya in 2017 and 2018 (USD million)				
Target Company	Acquirer Name	Deal Value	Sector	Period
Vodafone Kenya Ltd	Vodacom Group Ltd	2,600	TMT	2017
Kipeto Energy	Actis	300	Energy	2018
Avenue Hospitals	Abraaj Group	171	Healthcare	2017
Co-Operative Bank of Kenya	IFC	150	Financial Services	2018
Asante Capital EPZ	Moringa Fund	100	Agribusiness	2017
Haco Industries Kenya Ltd	SOCIETE BIC	71	FMCG	2018
Branch International	IFC Ventures, Anderseen Horowitz, Victoria Park Capital	70	Financial Services	2018
Malindi Solar Group	CDC, Globeleq	66	Energy	2018
Iberafrica Power (E.A.) Limited	AEP Energy Africa Limited	62	Energy	2018
Britam Holdings	AfricInvest	55	Financial Services	2018

Source: Bloomberg, Reuters, NKC Research, KPMG Research

M&A deal activity in Tanzania - 2010 to H1 2019

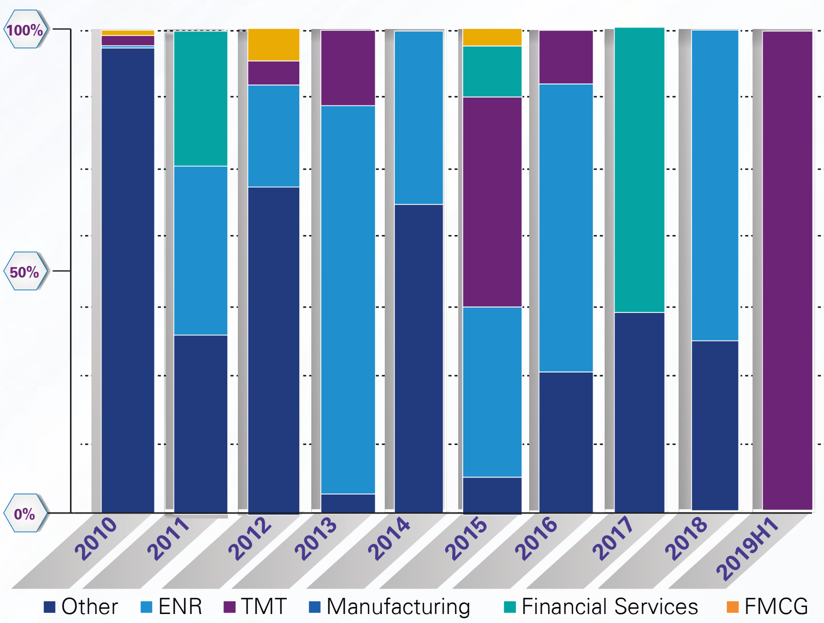
Tanzania deal value and volume by year (2010 - H1 2019)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

Tanzania - proportion of total deal value by sector (%)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

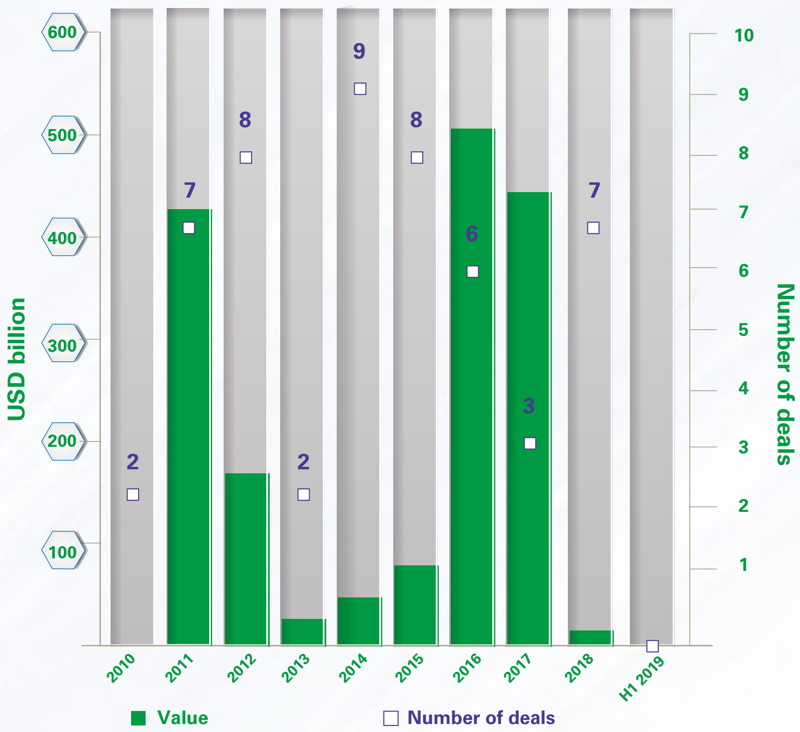
- Significant M&A deals in Tanzania were closed in the early years. The highest value of reported deals is in 2018 at USD 206 million. This was driven by the Swala Oil and Gas (USD 130 million) transaction.
- Of the reported total deals between 2010 to H1 2019, the majority of the Tanzanian deals are in the Mining (71), Energy and Natural Resources (45) and TMT (19), with fewer deals in Healthcare (2) and Manufacturing (2).

Top 10 Deals by Sector in Tanzania in 2017 and 2018 (USD million)				
Target Company	Acquirer Name	Deal Value	Sector	Period
PAE PanAfrican Energy	Swala Oil and Gas	130	Energy	2018
Zhongyuan Nengkuang Development (Tanzania)	Undisclosed	58	Mining	2018
Pyramid Group	Leapfrog Investments & IFC	15	Healthcare	2018
Proparco's Tanzanian unit	I&M Bank Rwanda Ltd	8	Financial Services	2017
Helio Resource	Shanta Gold	8	Mining	2017
Kibo Mining Plc	SEPCO III	3	Energy	2018
Brookside Dairy Tanzania Ltd	Danone SA	Undisclosed	FMCG	2017
Sadolin Paints (T) Ltd	Kansai Plascon Africa Ltd	Undisclosed	Manufacturing	2017
Sunshine Mining Ltd	Gunsynd PLC	Undisclosed	Mining	2017
DSM Corridor Group	Africa Infrastructure Investment Manager (AIIM)	Undisclosed	Transport	2017

Source: Bloomberg, Reuters, NKC Research, KPMG Research

M&A deal activity in Ethiopia – 2010 to H1 2019

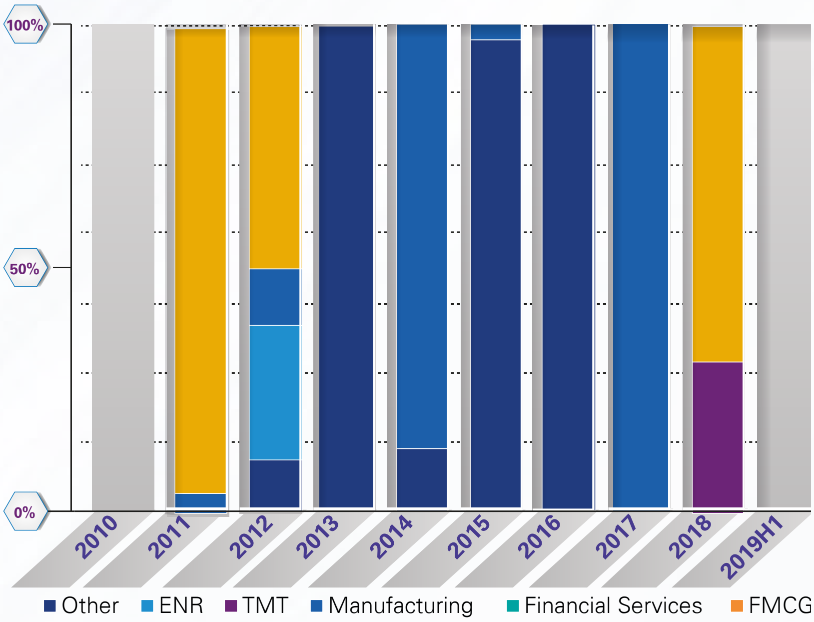
Ethiopia deal value and volume by year (2010 - H1 2019)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

Ethiopia - proportion of deal value by sector (%)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

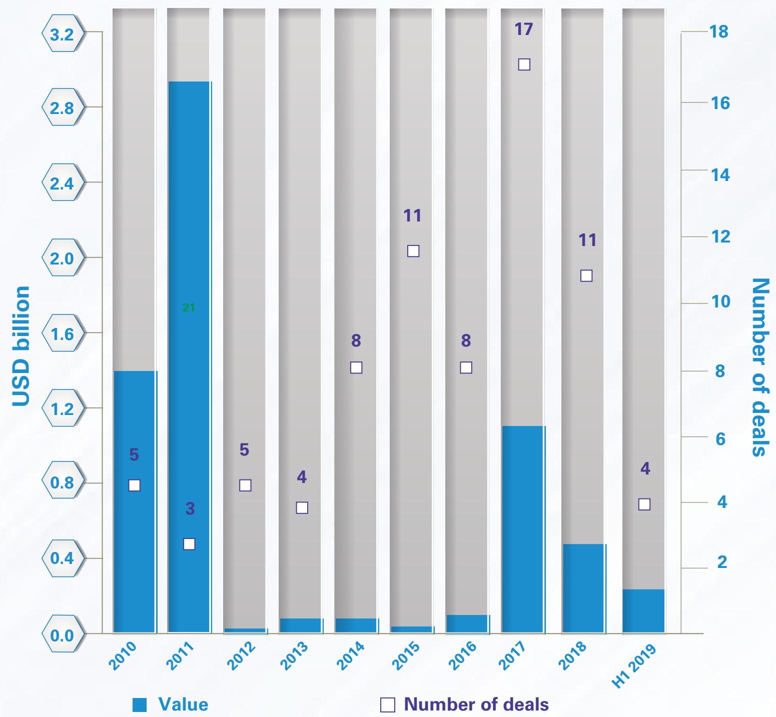
- On average the number of reported M&A deals per year in Ethiopia between 2010 and 2018 was 6. M&A activity in Ethiopia was at its highest in 2014 with 9 deals recorded.
- The deal between National Tobacco Enterprise SC and Japan Tobacco Inc. (2016: USD 510 million, 2017: USD 434 million) remains the largest deal in the country to date.
- Manufacturing and FMCG sectors in Ethiopia recorded the highest reported deal volumes at 12, with other sectors Agribusiness (10) and Mining (9) closely following suit.

Top 10 Deals by Sector in Ethiopia in 2017 and 2018 (USD million)				
Target Company	Acquirer Name	Deal Value	Sector	Period
National Tobacco Enterprise Share Company	Japan Tobacco Inc	434	Manufacturing	2017
Repi Soap and Detergent Share Company	Wilmar International	10	FMCG	2018
M-Birr	DEG Investments	5	TMT	2018
Nazareth Garment Share Co	Bagir Group Ltd	2	Manufacturing	2017
Tulu Kapi Gold Mines Company Limited	KEFI Minerals	Undisclosed	Manufacturing	2017
Ethio-Asia plc	Zoscales Partners	Undisclosed	Manufacturing	2018
Ethiopian Airlines	Aerosud	Undisclosed	Transport	2018
Afriflora	KKR	Undisclosed	Agribusiness	2018
Greenpath Ethiopia	Novastar Ventures	Undisclosed	Agribusiness	2018
CGF Crown Cork Manufacturing	Zoscales Partners	Undisclosed	Manufacturing	2018

Source: Bloomberg, Reuters, NKC Research, KPMG Research

M&A deal activity in Uganda – 2010 to H1 2019

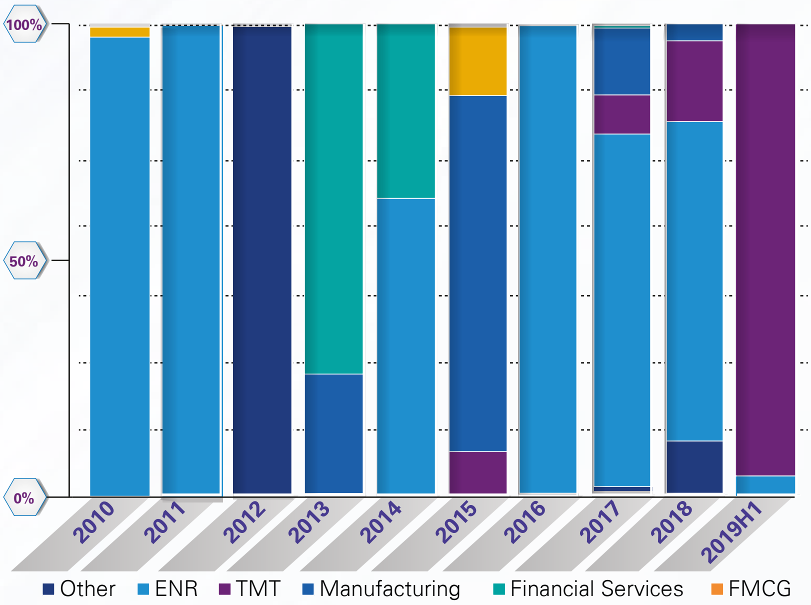
Uganda deal value and volume by year (2010 - H1 2019)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

Uganda - proportion of total deal value by sector (%)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

- Qatar Investment Authority's acquisition of Airtel Africa in Uganda accounted for 96% of the reported total deal value in H1 2019. However, this accounts for only 3.2% of the total reported deal value since 2010.
- The Energy and Natural Resource's sector (15) has seen the most deal activity in recent years, most of which related to Uganda's oil and gas exploration blocks. Followed closely by the Financial Services (13) and TMT (10) sectors.
- Since 2017 to H1 2019, the Agribusiness (6), Energy and Natural Resources (6) and Manufacturing (6) accounted for 56% of the total 32 reported deals.

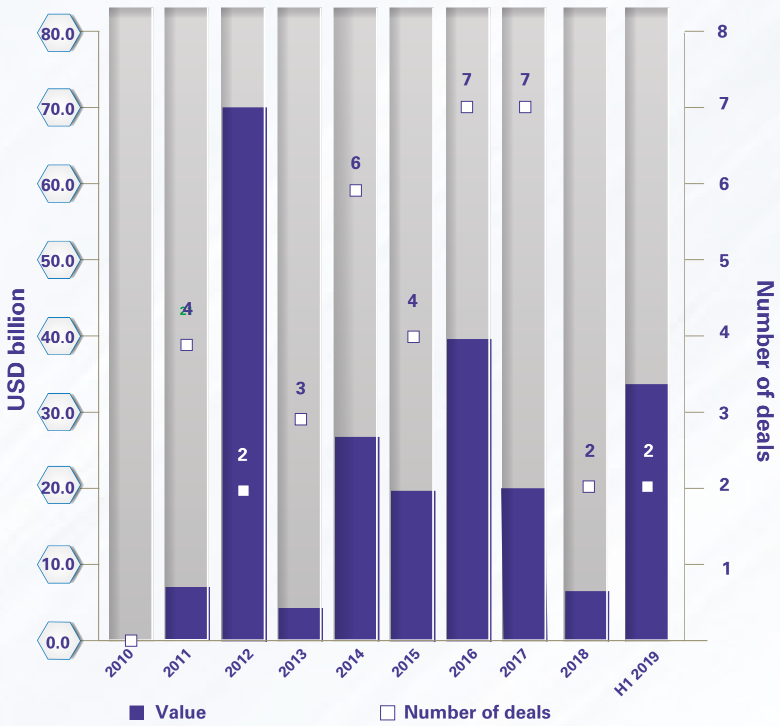
Top 10 Deals by Sector in Uganda in 2017 and 2018 (USD million)

Target Company	Acquirer Name	Deal Value	Sector	Period
Uganda Exploration Areas	TOTAL SA	900	Energy	2017
Bujagali Energy Limited	SN Power AS	277	Energy	2018
CSquared	Mitsui & Co Ltd, Convergence Partners, IFC, Alphabet Inc	100	TMT	2017
Sadolin Paints (U) Ltd	Kansai Plascon Africa Ltd	88	Manufacturing	2017
Lirtix S.A. and Rondatel S.A	Sundiro	82	Manufacturing	2017
Uganda Telecom	Teleology Holdings	70	TMT	2018
Cipla Quality Chemicals Industries Limited (CiplaQCIL)	TLG & Capitalworks	44	Healthcare	2018
Lonmin	National Oil Infrastructure Company	15	Manufacturing	2018
Qualicoff	XSML Capital	10	Agribusiness	2017
Lion Assurance Company Limited	Sanlam Emerging Markets Proprietary Limited	7	Financial Services	2017

Source: Bloomberg, Reuters, NKC Research, KPMG Research

M&A deal activity in Rwanda – 2010 to H1 2019

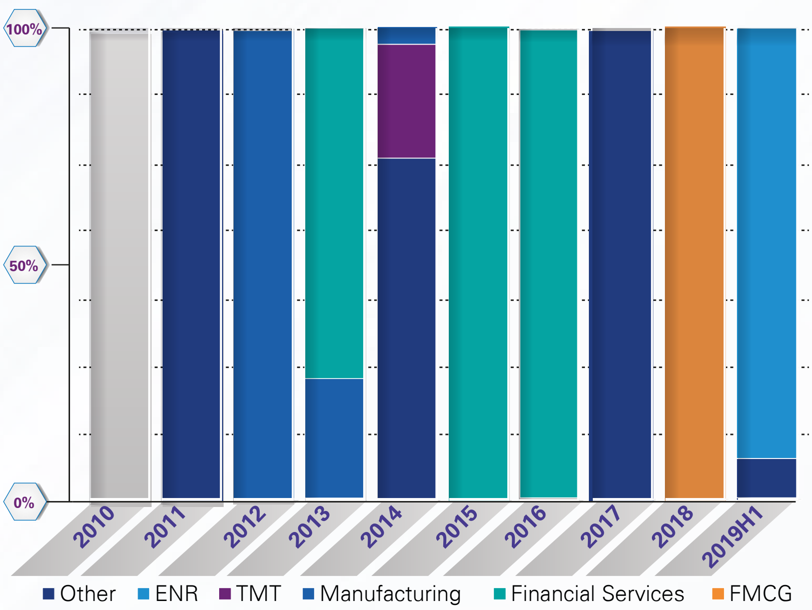
Rwanda deal value and volume by year (2010 to H1 2019)



Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

Rwanda - proportion of total deal value by sector (%)



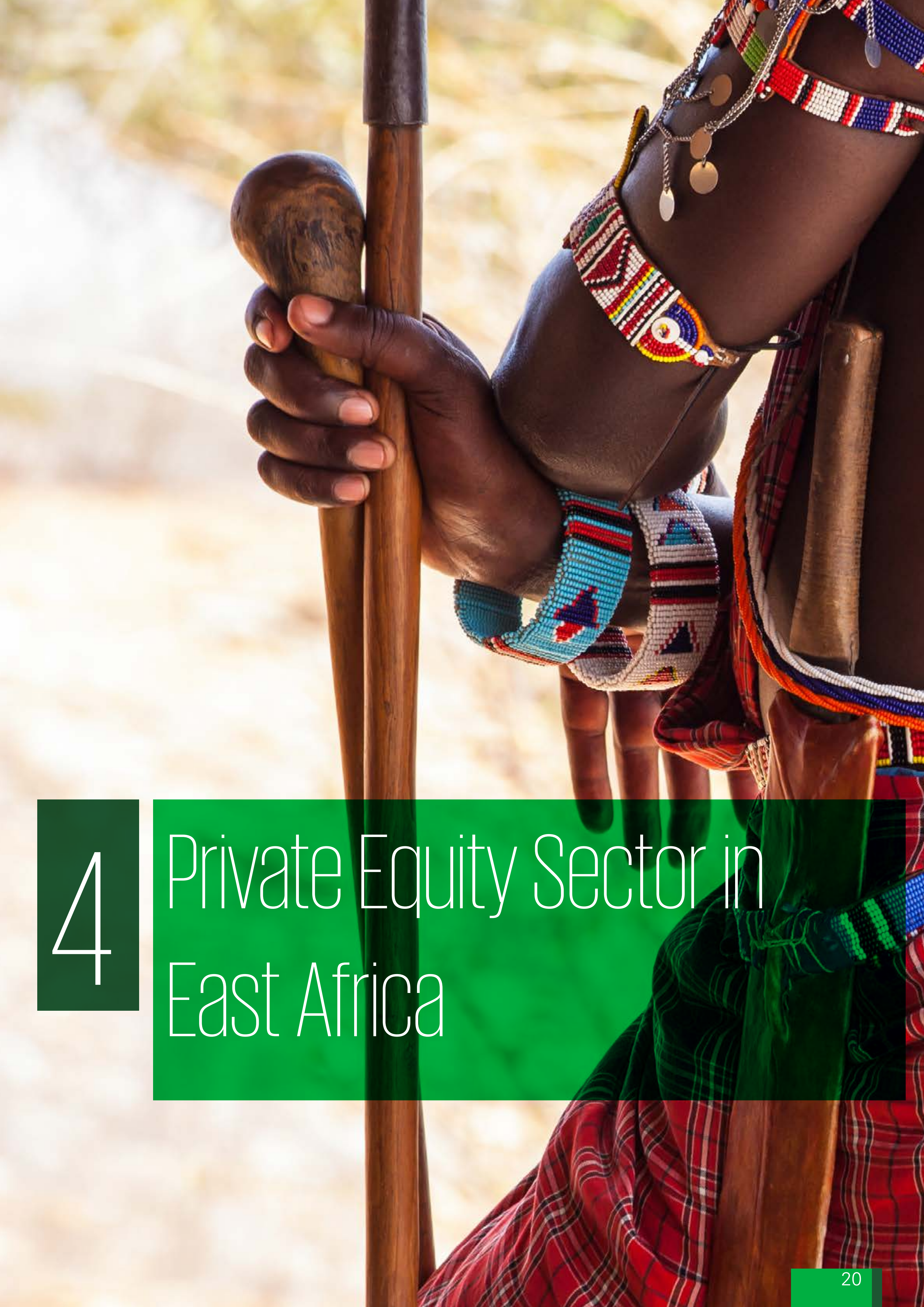
Source: Bloomberg, Reuters, NKC Research, KPMG Research

Note: Reported deal volumes and value shown above reflect only disclosed transactions.

- Rwanda has seen the fewest deals across all five East African countries between 2010-2018 at 37.
- Financial Services (10), Agribusiness (5), TMT (5) and Hospitality (4) recorded the most reported deals since 2010.
- The largest publicly disclosed value in Rwanda was the acquisition of a 51% stake in Cimerwa Cement by Pretoria Portland Cement at a value of USD 30.0 69.4 million in 2012.

Top 9 Deals by Sector in Rwanda in 2017 and 2018 (USD million)				
Target Company	Acquirer Name	Deal Value	Sector	Period
Umubano Hotel	Madhvani Group	20	Hospitality	2017
Metafoam	TLG Capital	5	FMCG	2018
I&M Bank Rwanda	Kibo Capital	Undisclosed	Financial Services	2017
Rwanda Energy Group Ltd	Disruptive Capital Investments Ltd	Undisclosed	Energy	2017
Crane Bank Rwanda	Commercial Bank of Africa Ltd	Undisclosed	Financial Services	2017
Engen Limited	Vivo Energy	Undisclosed	Energy	2017
Millicom International Cellular's	Bharti Airtel	Undisclosed	TMT	2017
New Stream Group	Areti International Group	Undisclosed	Manufacturing	2017
Sarura Commodities	DOB Equity	Undisclosed	Agriculture	2018

Source: Bloomberg, Reuters, NKC Research, KPMG Research



4 Private Equity Sector in East Africa

Private Equity sector in East Africa

A "private equity fund" in East Africa is a collective term used for a wide variety of financial investors. Such financial investors include:

- Direct equity investing arms of DFIs;
- Traditional private equity funds i.e. general partners, capital call funds etc;
- Impact investors;
- Venture capitalists;
- Family offices; and,
- Hybrid funds focussing on mezzanine financing, distressed opportunities.

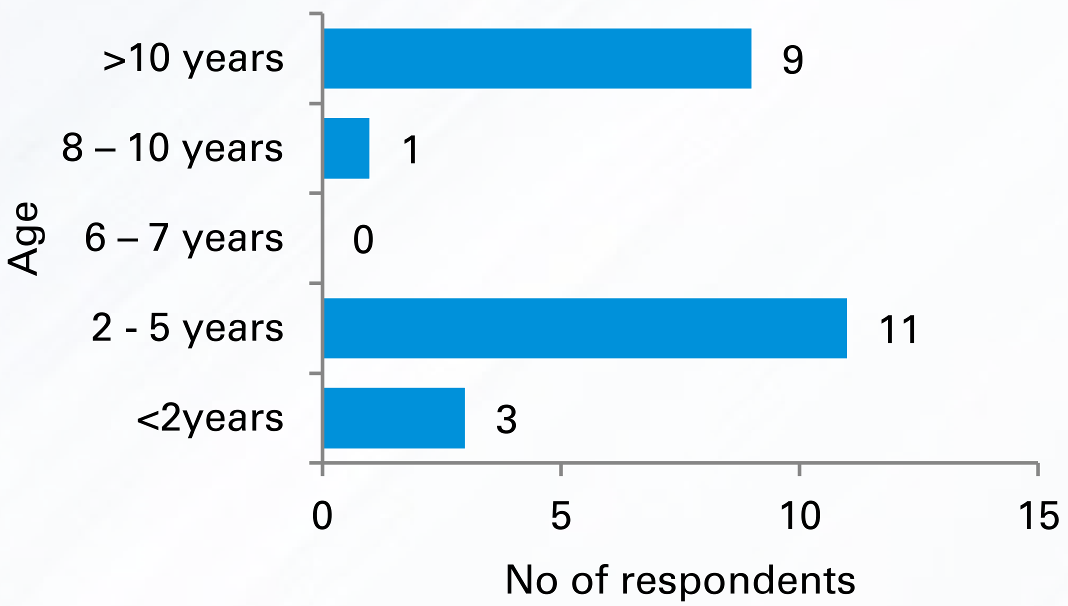
As at May 2019, the EAVCA has estimated the total number of private equity funds investing in East Africa to be slightly over 97. This number has significantly increased from 36 reported in the 2007 to 2014 Survey and 72 reported in the 2015 to 2016 Survey.

The exact value of funds under management, operating in East Africa cannot be determined since each fund has a unique fund-raising, investment and portfolio management model. For example, there are global, regional and East African funds that:

- Invest across emerging markets and/or pan-African investments through one general fund; and/or
- Are sector centric but invest across Africa through a sector dedicated fund; and/or
- Pursue a fly-in fly-out operating model across select countries in Africa.

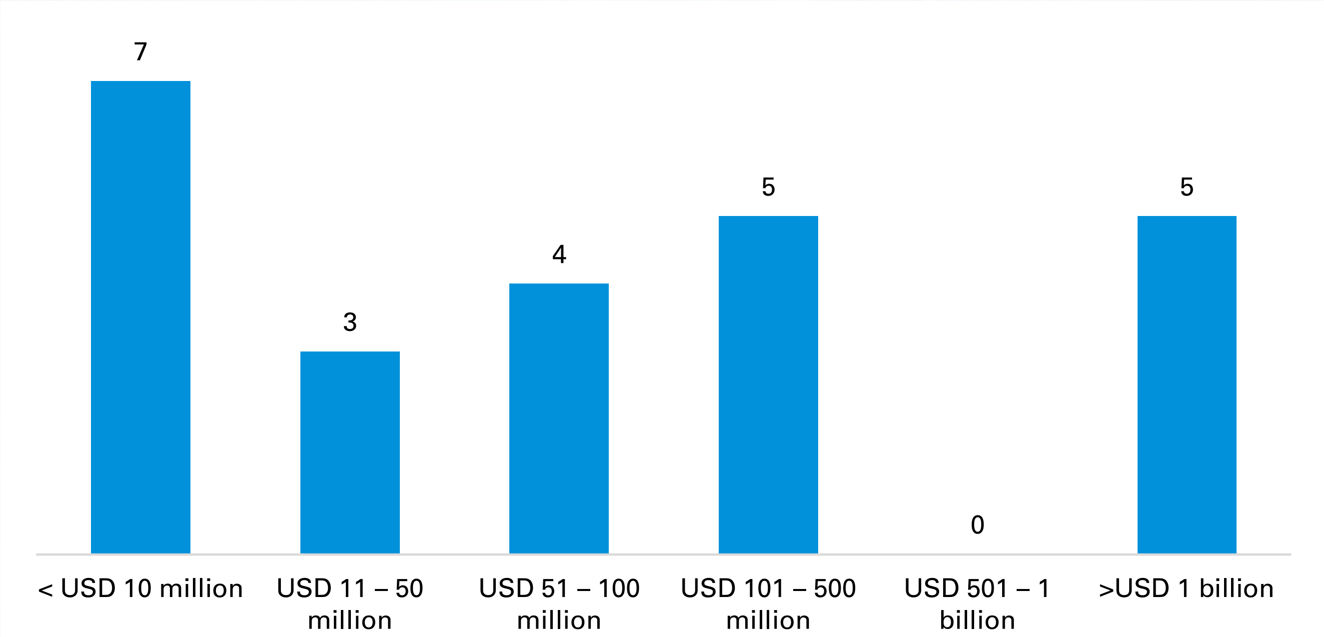
The East African Private Equity sector is slowly maturing as witnessed in the growth of new funds and funds raising their follow on vehicles.

Average age of funds of respondents



Source: Survey

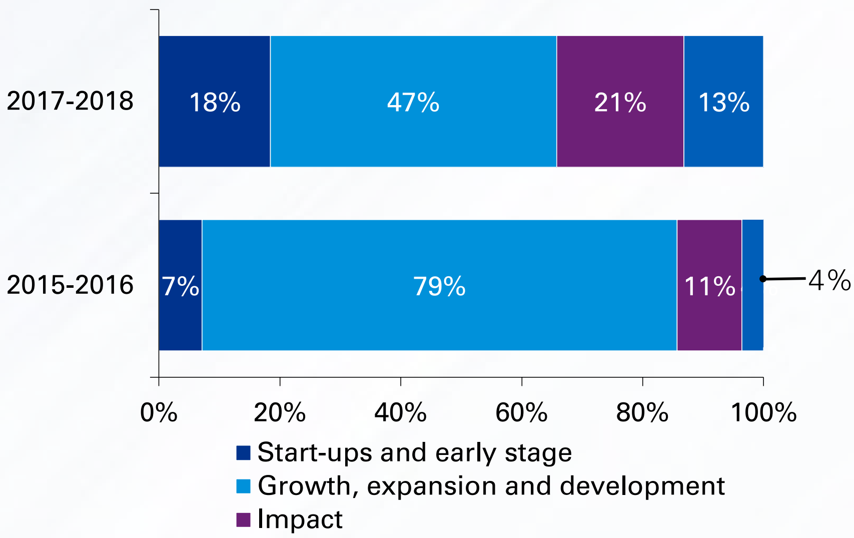
Fund sizes of respondents



Source: Survey

— Similar to the 2015-2016 Survey, 15 of the respondents indicated the size of their fund is in the small-cap to mid-cap range with a focus on growth and expansion. As the underlying portfolio companies and investee companies grow, we are likely to see large-cap PE firms entering the East African market, although with a smaller ticket size compared to their global investment criteria.

Investment preferences



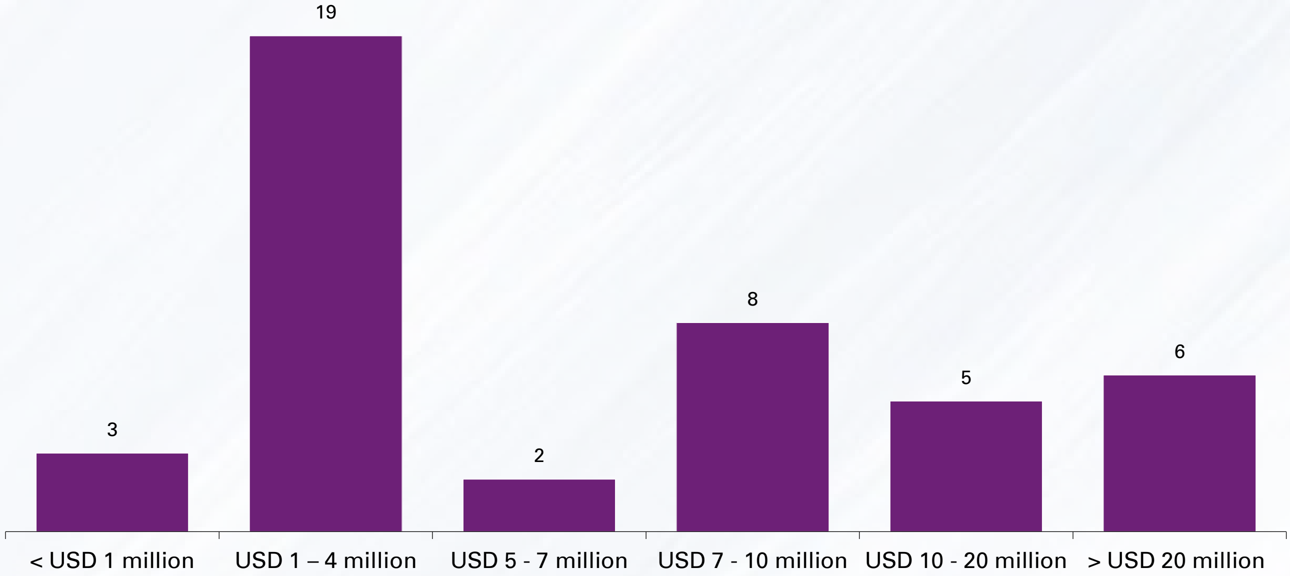
Source: Survey

— Participants had the option to select more than 1 preference for this question. As such, 47% of respondents had a preference to invest in companies requiring growth, expansion and development. This has been consistent since 2013.

— There is also a marked increase in funds focusing on start-ups and early stage, impact and buyouts demonstrating an increased appetite to aid SMEs through early stage development.

Investment preferences (continued)

As with previous Surveys, and consistent with small to mid cap investment strategies, investment sizes of deals reported by respondents range between USD 1 million to > USD 20 million. Majority of the respondents stating their preference to be investments of between USD 1 million and USD 4 million.

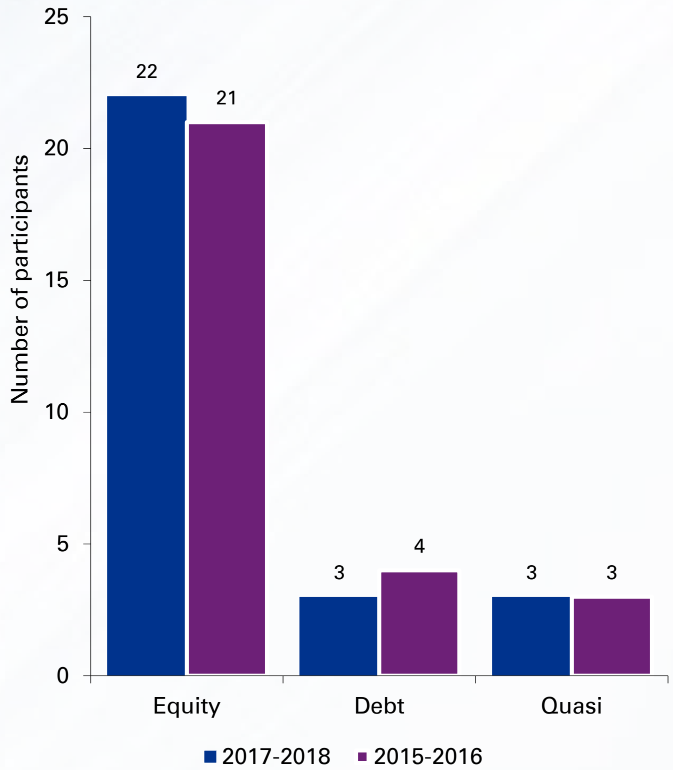


Source: Survey

— 19 of the respondents indicated their investment size to be between USD 1 million to USD 4 million. At the same time, there is an increasing preference for the USD 7 – 10 million investments.

— 26% of the respondents invested in tickets above USD 10 million, further signaling the growth of the East Africa market.

Preferred investment instrument



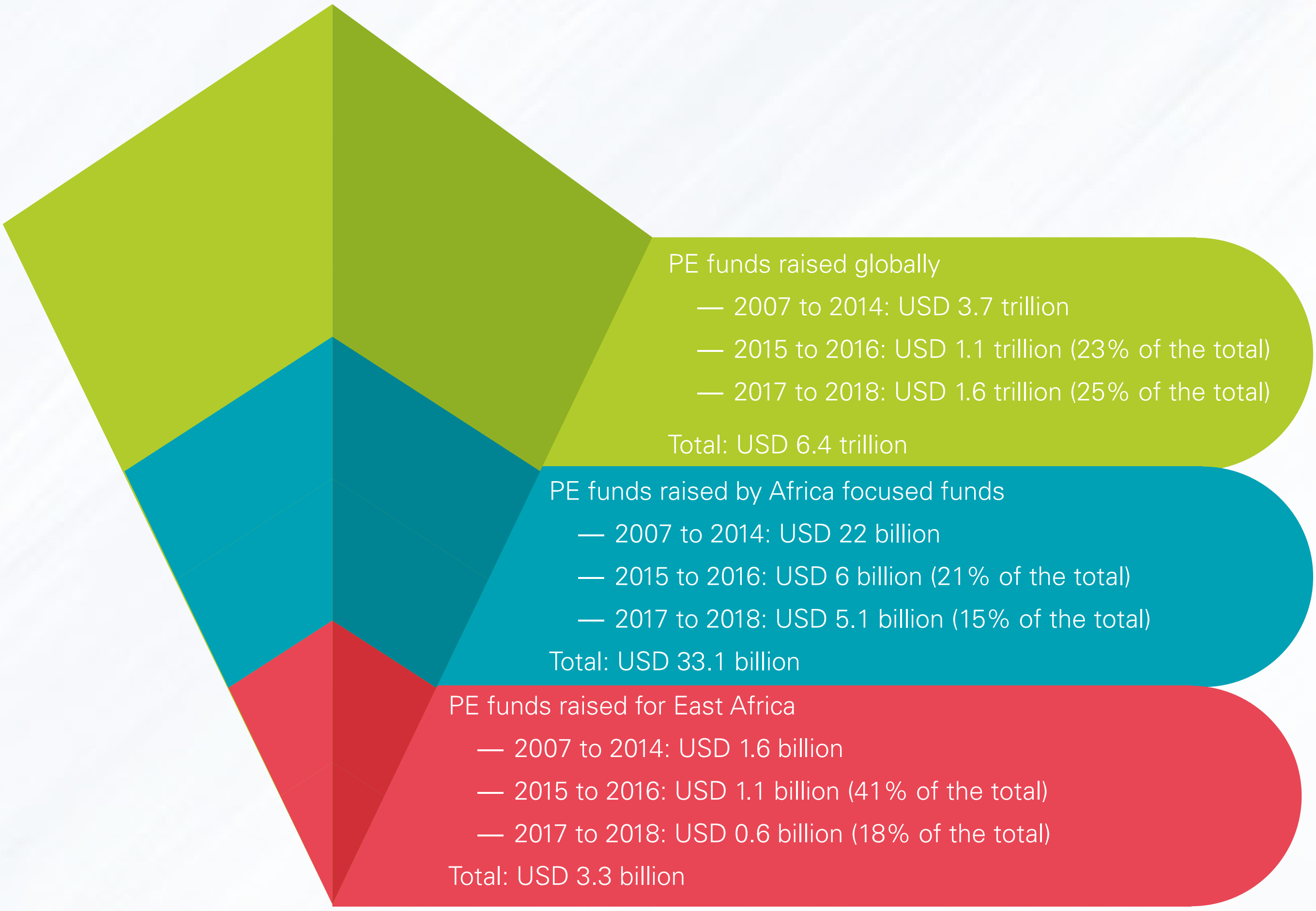
Source: Survey

— Direct equity investment continues to be the preferred investment method. Notably though is the entry of structured products of quasi equity and debt investments as options to deploy private capital in East Africa.

5 Survey results

1. Fund raising
2. Investment activity
3. Exits and performance

Fund raising - Global, Africa and East Africa



Source: Bain private equity report 2016, 2017 and 2018 global, SAVCA report for Africa, AVCA 2016, 2018

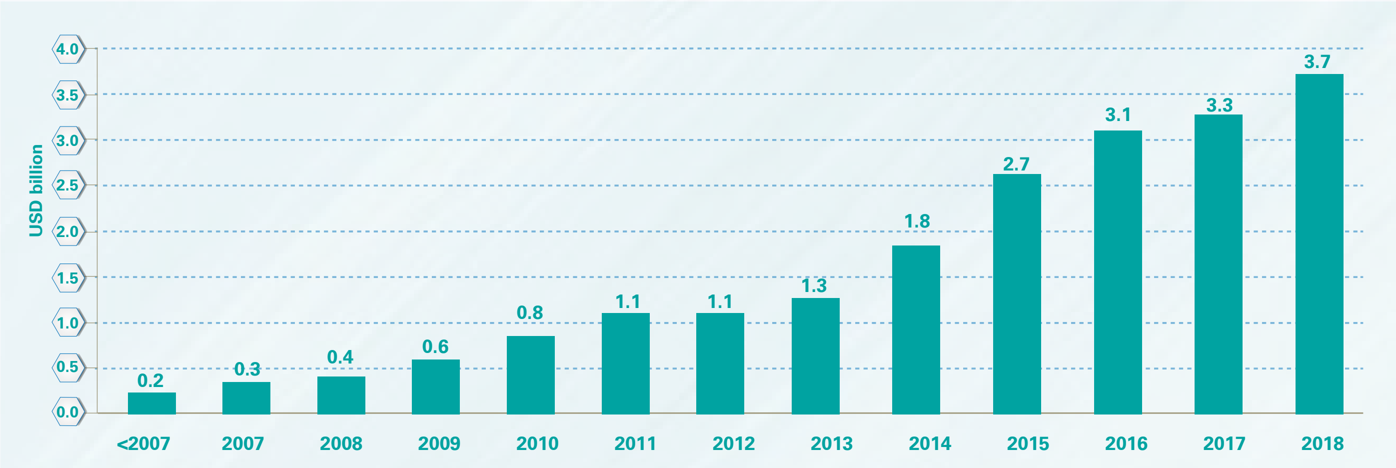
— Whilst globally PE funds raised increased in both 2017 and 2018 by 25% to USD 1.6 trillion, there has been a decreased level of fund raising for Africa at 15% and East Africa at 18% over the same period.

— With most PE funds being pan-African, it is difficult to identify the exact amounts raised for East Africa by these funds, hence, we have estimated USD 579 million as being raised by approximately 10 pan-African and East African Private Equity funds for investment in the East African region. This is almost half of what was raised in 2015 to 2016, and is reflective of the challenging global fundraising environment during the period 2017-2018

Of the total global PE funds raised globally (USD 6.4 trillion) between 2007 and 2018, approximately 0.5% (USD 33.1 billion) is earmarked for Africa and 0.09% (USD 3.3 billion) for East Africa.

Fund raising: East Africa

Cumulative fund raising by year in East Africa



Source: Various

Note: In 2015, 10 pan-African and East African funds raised in total close to USD 3.6 billion while in 2016, 6 pan-African and East African funds raised USD 1.5 billion. However, not all these funds are ear-marked for East Africa, therefore, we have estimated that only a quarter has been allocated for their East African investment strategy.

Fund raising by year

Year	>2007	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total fund raised per year (USD million)	245	9	175	189	165	289	59	190	486	909	377	188	391
Number of fund raisers	4	2	2	3	4	6	2	4	5	10	6	4	6

Source: Survey

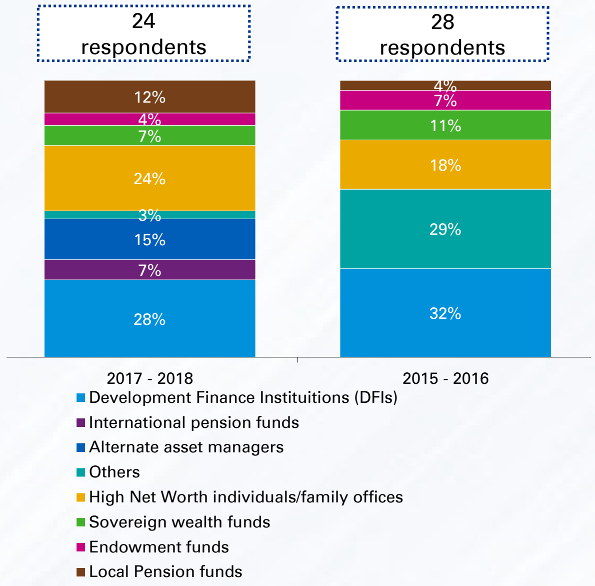
— The most active fundraising years were 2011, 2015, 2016 and 2018 with approximately USD 2 billion raised by 28 respondents.

— Over 2017 to 2018, fund raising for the region hit USD 579 million reflective of the increase in number of funds raising at the same time.

The average fund size raised in East Africa between 2007 to 2018 is USD 57 million.

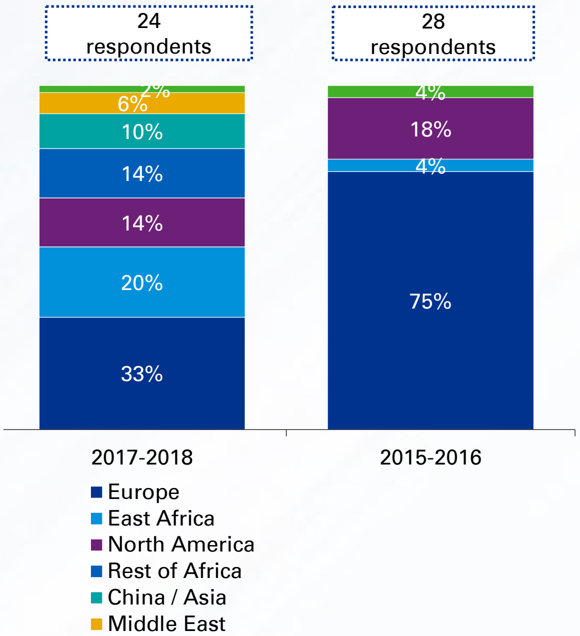
Fund raising: investor and country

Sources of funds by investor type (2017 – 2018)



Source: Survey

Sources of funds by country of origin (2017 – 2018)



Source: Survey

— Development Finance Institutions (DFI's) and High Net Worth individuals/family offices continue to be the dominant sources of funds accounting for 52% of the total funds raised in 2017 and 2018. This is followed by alternate asset managers and international and local pension funds, collectively, contributing to 34%.

— In the 2017 to 2018 Survey, 19% of the respondents indicated pension funds as a source of funds raised, this is an increase of 15% compared to 2015 to 2016. This is largely due to local pension funds embracing private equity sector as an alternate source of income following favourable regulatory changes, active investor education and PE sector engagement in the region.

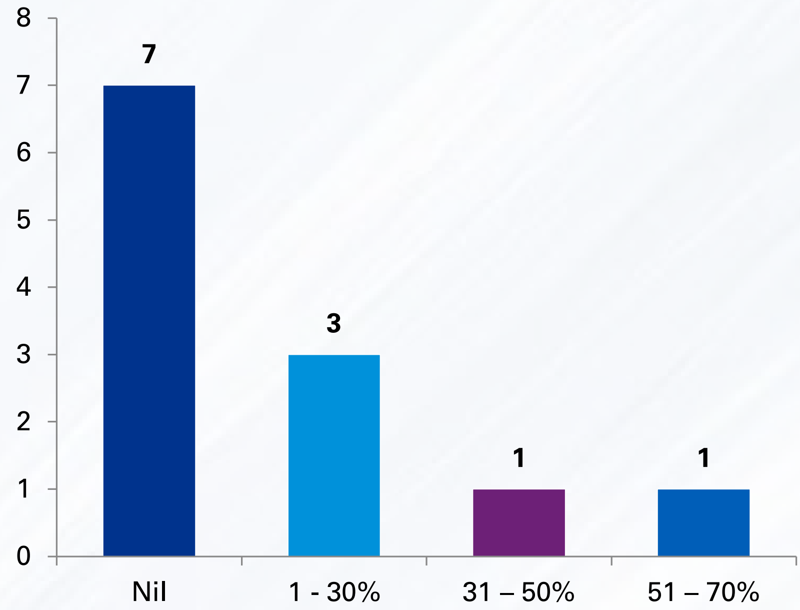
— Of the 24 respondents, 16 cited Europe as one of their main source of funds, this is consistent with previous Survey findings. With East Africa being the second main source of funds – a marked increase in local funds.

— Emerging markets for fundraising are China/ Asia and the Middle East which were not previously cited as sources of capital. This was not the case in the 2015 to 2016 Survey suggesting that there is a growing appetite for inward investment in East Africa from other geographies.

There is a notable increase in regional sources as well as Asia and Middle East indicating continued interest in East Africa from emerging markets.

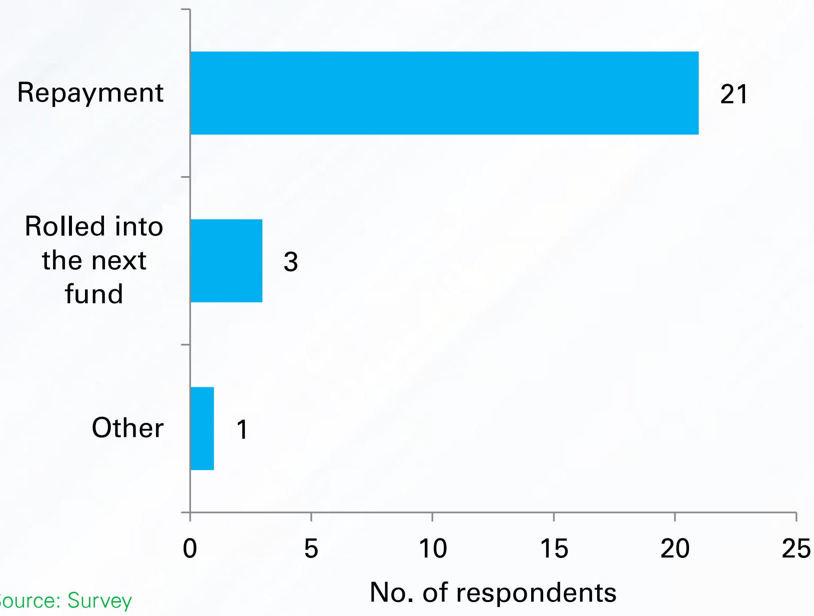
Fund raising: returns

Proportion of funds returned to investors



Source: Survey

Preferred method for return of funds



Source: Survey

— During 2017 and 2018, fewer funds reported returns to investors at 5 versus 13 over 2015 and 2016. This is, in part, due to the fact that fewer funds had their investment cycles closing in the period. Furthermore, long holding periods and delayed exits contributed to deferred returns to investors.

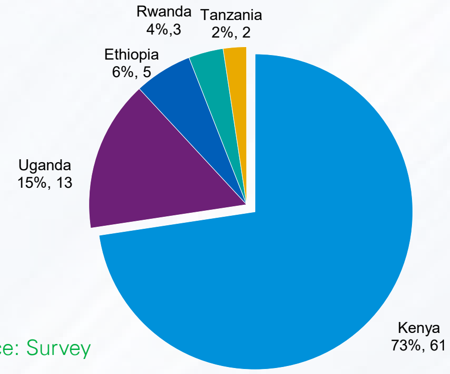
— Of the non-maiden funds two reported returns in the range of 31% to 70% to their investors.

— Repayment remains the preferred method to return funds to investors.

The preferred method of returns to investors is repayment. However, there has been an decrease in the number of investors opting for rollover compared to the 2015-2016 Survey.

Investment activity: volume and value - 2017 to 2018

Deal volume by geography (2017-2018)



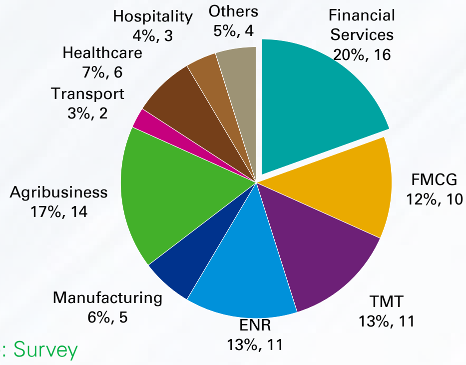
Source: Survey

Total volume: 84 deals

— Of the total 84 deals reported by the PE sector in East Africa, Kenya dominates at 61 (73%). This is higher than the 22 reported deals in the 2015 – 2016 Survey.

— There has been a shift to Uganda as the second preferred geography, with Ethiopia coming in third.

Deal volume by sector (2017-2018)

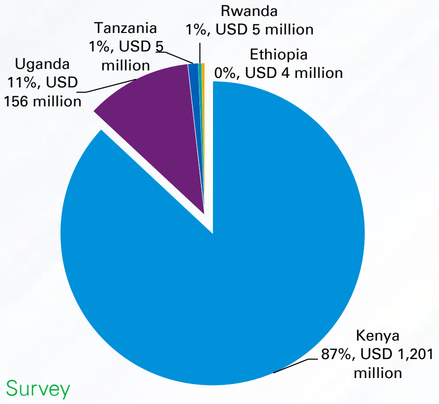


Source: Survey

Total volume: 84 deals

— Financial Services sector continues to boast the largest share of deals in the region with 16 deals recorded in 2017-2018. Agribusiness, TMT and ENR come second and joint third at 14, 11, and 11 deals, respectively.

Deal value by geography (2017-2018



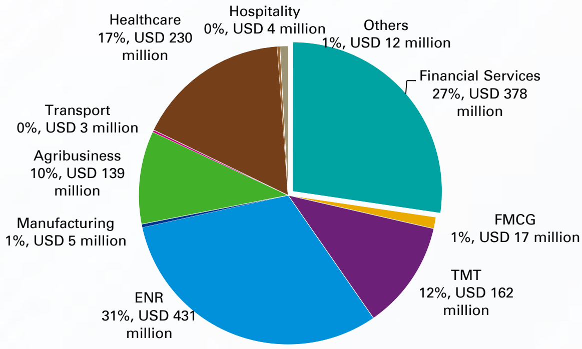
Source: Survey

Total value: USD 1.4 billion

— USD 1.4 billion has been invested through the 84 deals by PE funds during 2017 to 2018.

— Highest deal values were recorded in Kenya at USD 1.2 billion, in part, due to the high number of deals as well as the size of businesses.

Deal value by sector (2017-2018)



Source: Survey

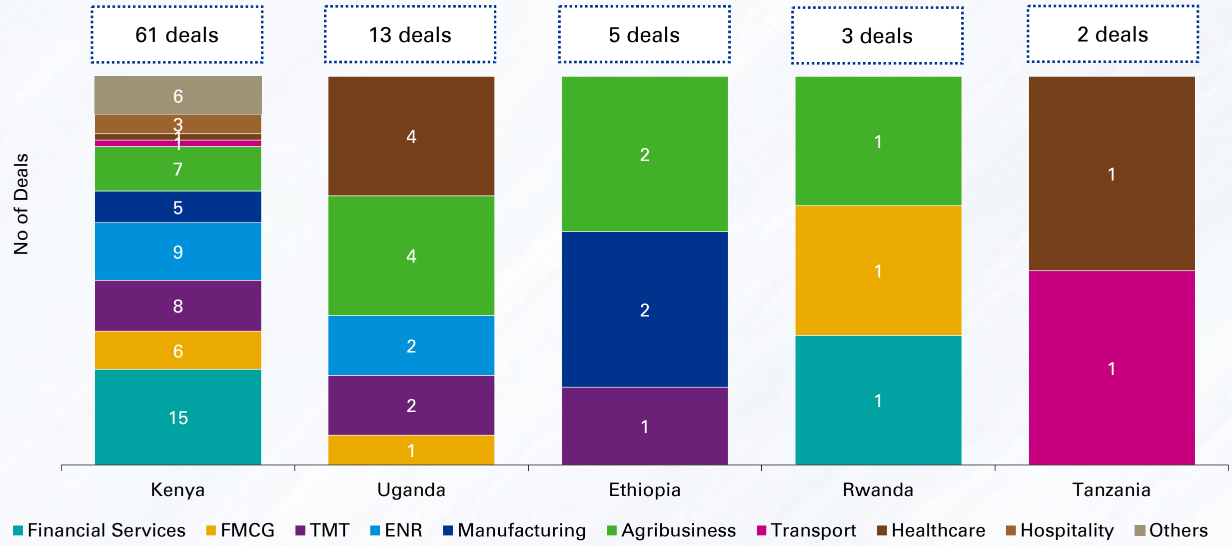
Total value: USD 1.4 billion

— ENR, Financial Services and Healthcare were the leading sectors in terms of deal values, collectively accounting for USD 1 billion of investment over the 2017 to 2018 period.

— Deal values and volumes in the Agribusiness sector increased, whilst deal values in the TMT sector declined, compared to 2015 to 2016.

Across 2017 and 2018, private equity funds have invested USD 1.4 billion across 84 deals. Of which, USD 1.2 billion has been invested in Kenya.

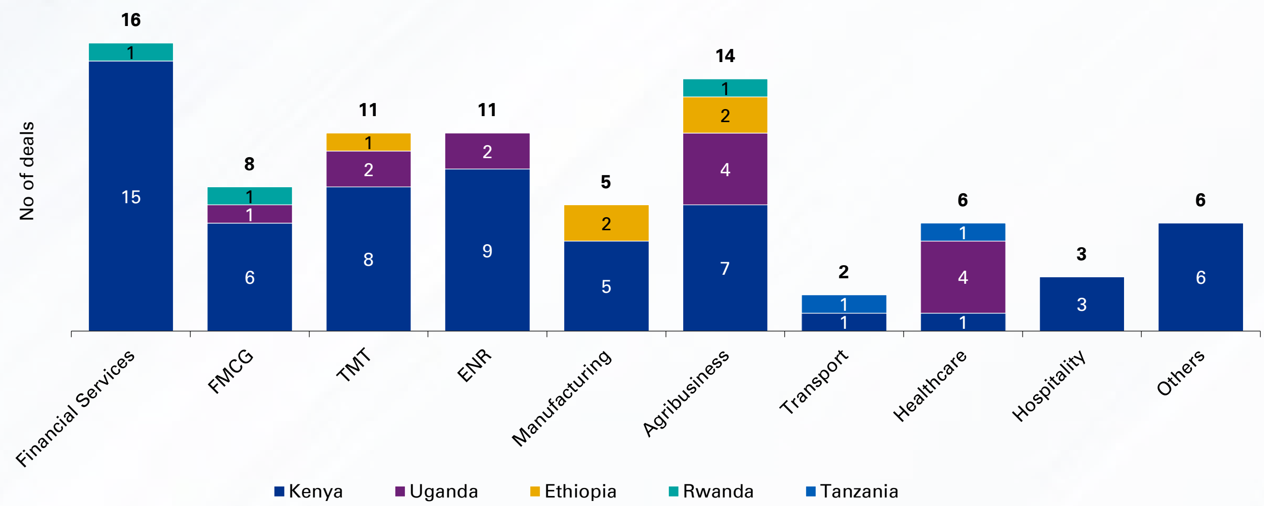
Deal volumes by geography and sector (2017-2018)



Source: Survey

- In the 61 Kenyan PE deals reported, the top two sectors were: Financial Services (15) and ENR (9). Similar to the 2015-2016 Survey, Kenya continues to record diverse investments with most sectors represented.
- Healthcare and Agribusiness were the dominant investment sectors in Uganda at 4 each of total 13 Ugandan deals.
- In Ethiopia, Manufacturing and Agribusiness led the investments with 2 deals each of the total 5 deals recorded in the 2017 to 2018 period.
- Financial Services, FMCG and Agribusiness sectors all saw 1 deal recorded for each sector.
- In Tanzania, deals recorded in the period were in the Transport and Healthcare sectors.

Deal volumes by sector and geography (2017-2018)

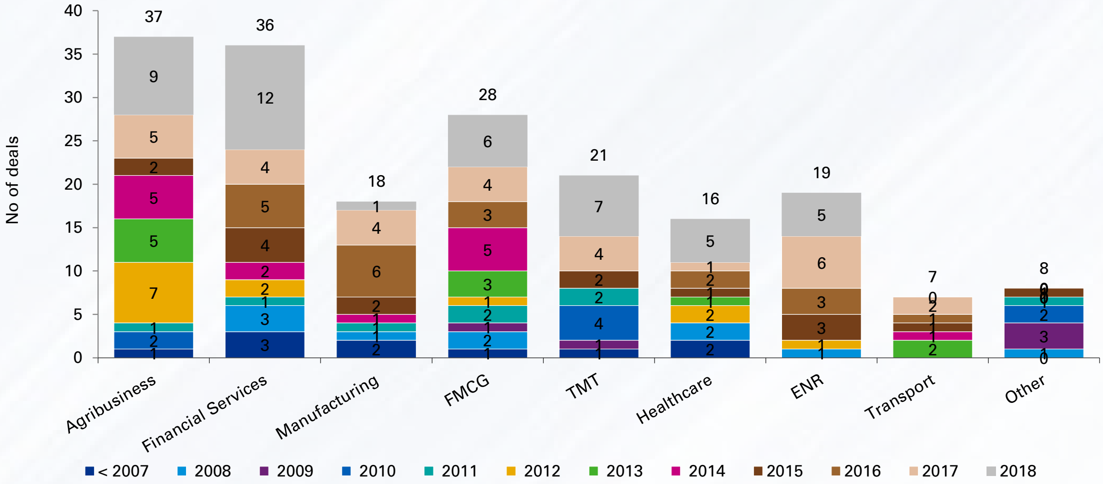


Source: Survey

Investment into Kenya is diversified through 10 sectors attracting PE funding. Agribusiness and FMCG deals have been reported across most of the EA countries in 2017 to 2018.

Investment activity: deal volumes and value - 2007 to 2018

Deal volumes by sector (2007-2018)

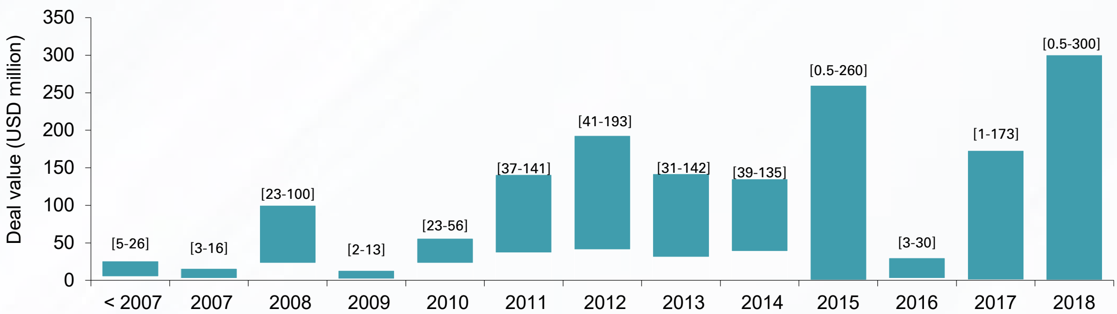


Source: Survey

Estimated deal value per year

Source: Survey

Deal value range by year (2007-2018)

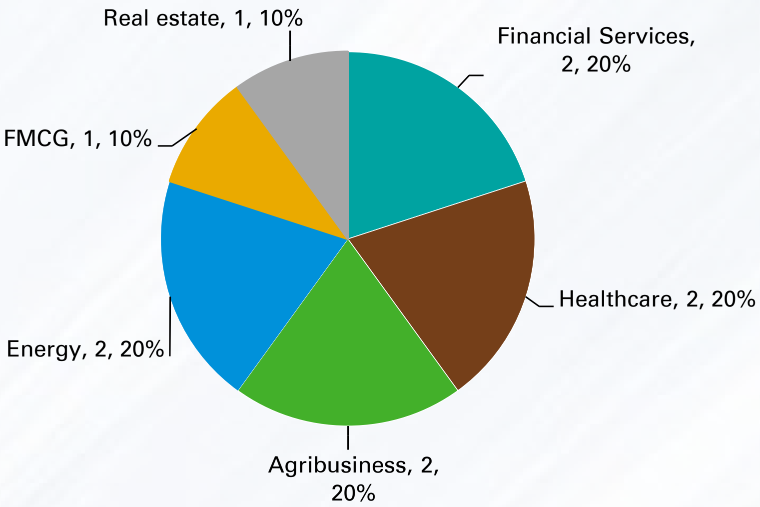


Source: Survey

Total reported PE backed deals in East Africa by respondents were 190 between 2007 to 2018 approximately valued at USD 2.8 billion. Dominating sectors were: Agribusinesses, Financial Services and FMCG sectors which collectively attracted 53% of the total 190 reported. This leaves approximately USD 0.6 billion of dry powder.

Exits and performance: sector - 2007 to 2018

Reported exits by sector (2017-2018)

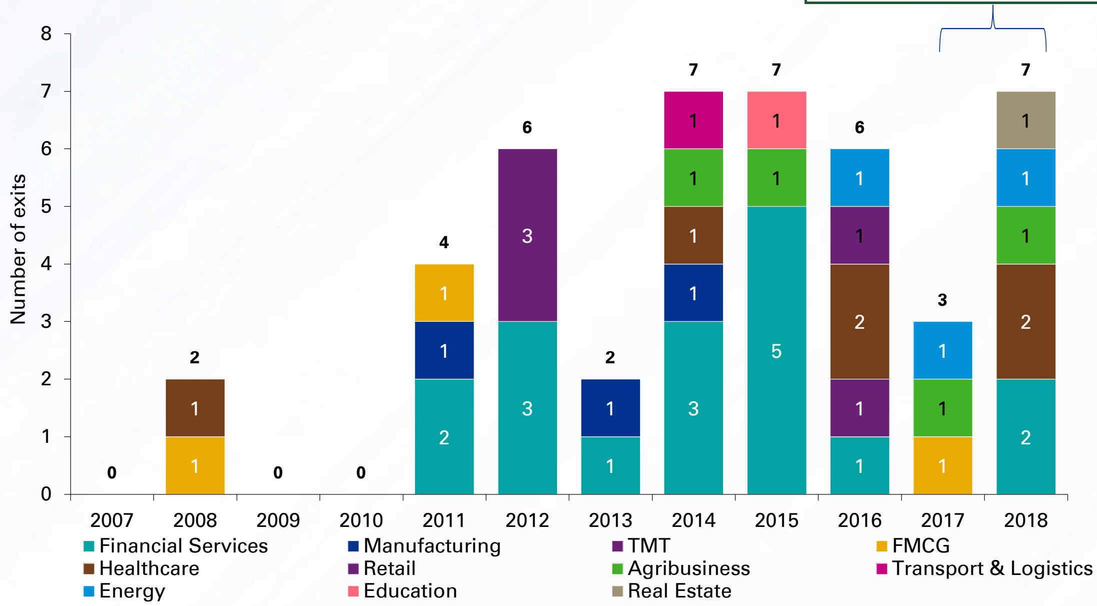


Source: Survey

— There were 10 exits reported over 2017 – 2018, compared to 13 recorded in the period 2015-2016. Exits in the region remain sparse as funds hold their investments for a longer period.

Reported exits by sector (2007-2018)

50% of the private equity exits were through sale to strategic investors.



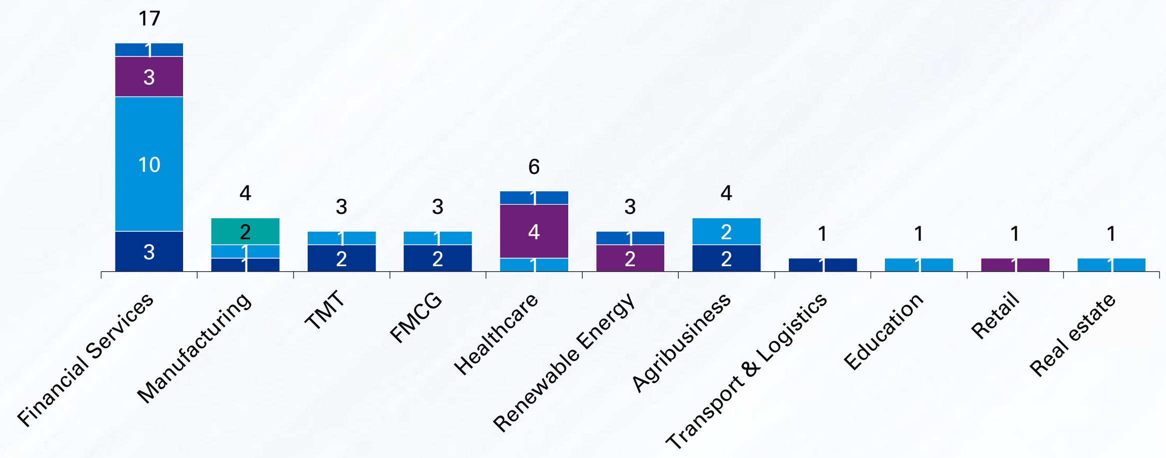
Source: Survey

— Of the total 10 reported private equity exits in 2017 and 2018, 2 each were in the Agribusiness, Healthcare, Financial Services and Energy and 1 each in the FMCG and Real Estate sectors.

Total exits between 2007 to 2018 were reported at 44, with 10 in the period 2017 to 2018.

Exits and performance: sector and method - 2007 to 2018

Exits by sector (2007-2018)



Source: Survey, Private Equity Africa, Thomson Reuters

Rate of exits versus investment

	2017-2018	Total (2007 to 2018)
Number of investments	84	190
Number of exits	10	44
Rate of exit	12%	23%

Source: Survey, Private Equity Africa, Thomson Reuters

Of the 10 exits in 2017 and 2018:

- 2 were through an IPO.
- 8 exits were to strategic (5) and financial investors (3).

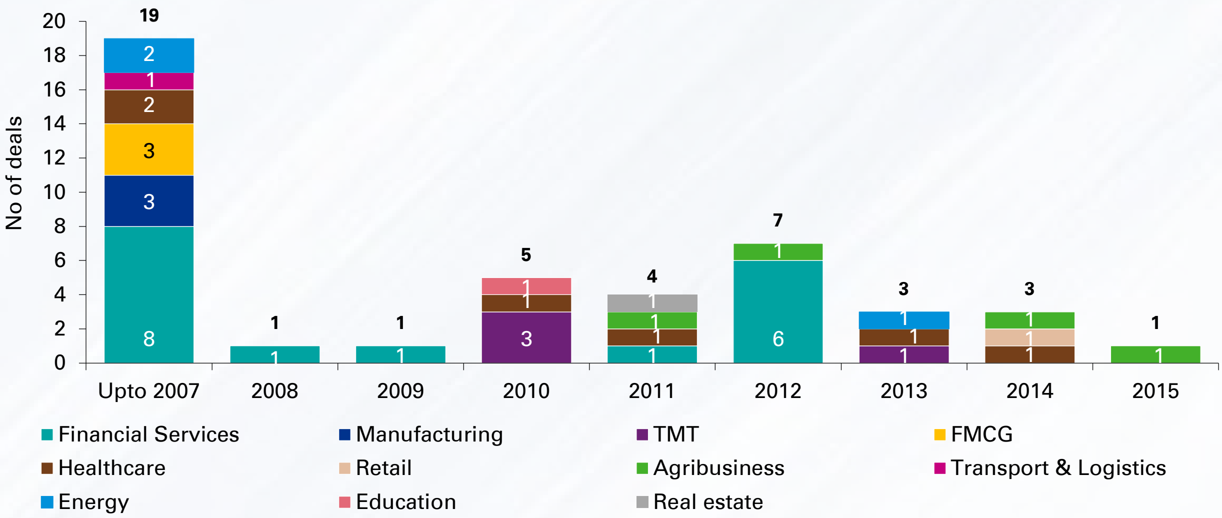
Of the 44 exits reported by the respondents from <2007 to 2018:

- 17 are in Financial Services; 6 in Healthcare, 4 each in Agribusiness and Manufacturing, 3 each in TMT, FMCG and Energy and 1 each in Retail, Education, Transport and Real Estate.
- A number of exits were made via sale to strategic investors (18) followed by share buy backs (11). Sale to financial investors, listing and others accounted for 15 of the total 41 exits over the period 2007 - 2018.

Whilst there seems to be a slow down 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.

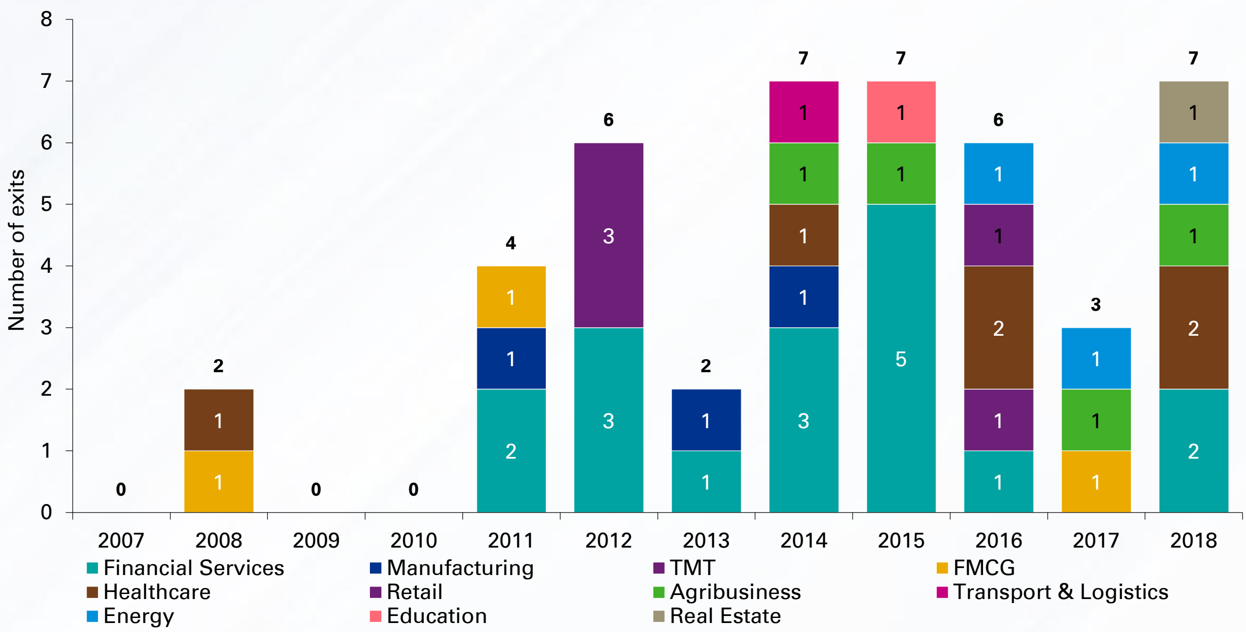
Exits and performance: year – 2007 to 2018

Initial year of investment of exits



Source: Survey, Private Equity Africa, Thomson Reuters

Exits by year



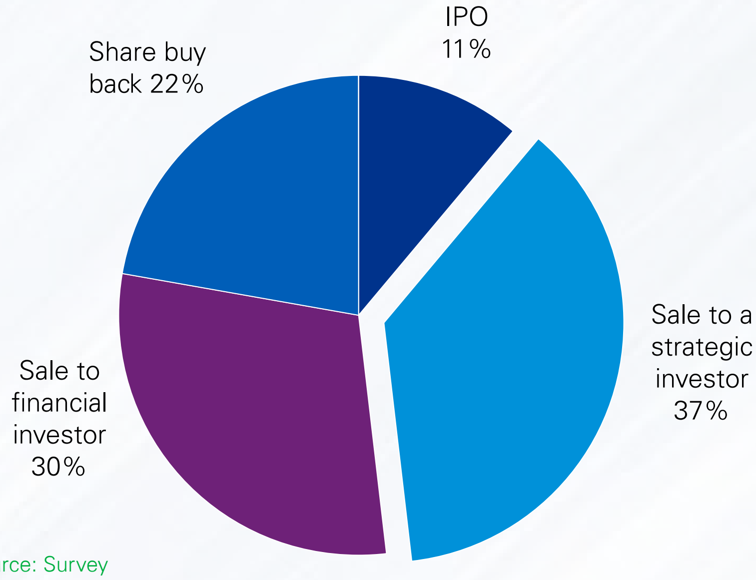
Source: Survey, Private Equity Africa, Thomson Reuters

— Excluding 2 of the 7 exits in 2017 and 2018, 5 exits were initially invested in 2011 - 2015, implying an average holding period of around 5 years. This is an improvement to the previous 6 years reported in the 2015-2016 Survey.

It would appear that the holding period of investments has decreased to 5 years from 6 years reported in the 2015-2016 Survey.

Exits and performance: mode

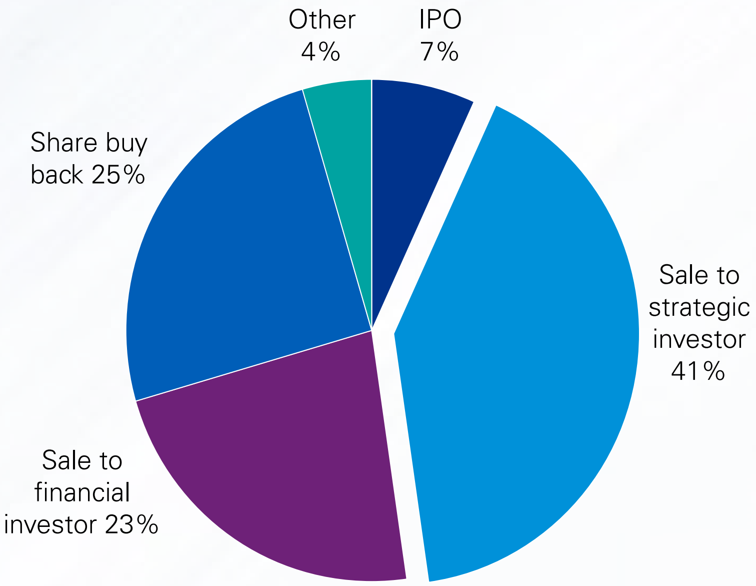
Preferred mode of exits (2017–2018)



Source: Survey

— Sale to a strategic investor remains the most preferred route of exit at 37%. On the other hand, sale to financial investors has increased to 30% from 15%.

Actual mode of exits (2017–2018)



Source: Survey

— Actual sale to strategic investors remains the highest at 41%. This is an increase of 3% compared to the previous Survey.

— Share buy backs is second at 25%.

Over the period 2017 to 2018, there has also been a shift in preference of exits to financial investors.

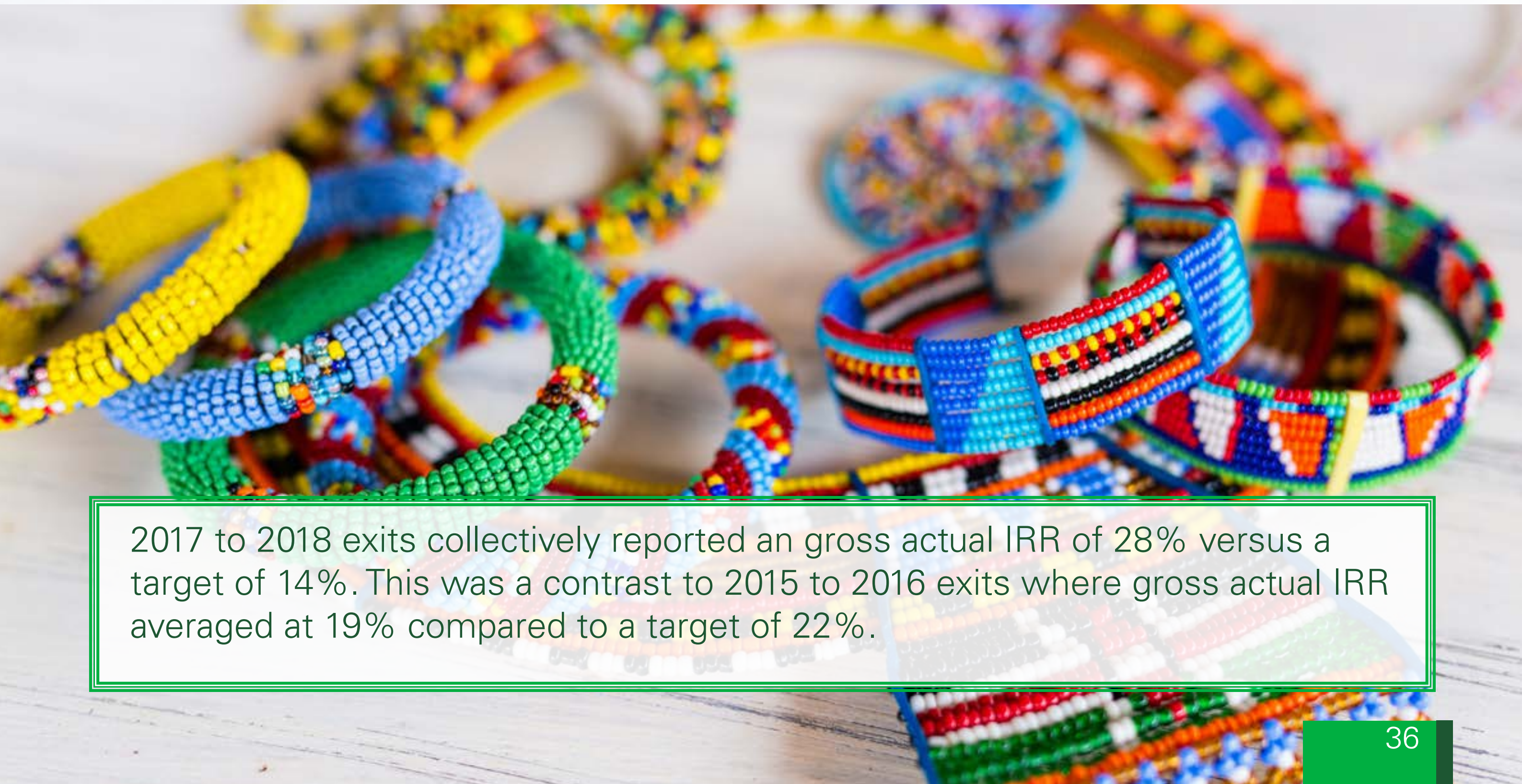
Exits and performance: mode

Disclosed IRR performance (2015–2018)

Respondent	Gross target IRR (%)	Gross actual IRR (%)	Period
1	18.0%	20.5%	2015 to 2016
2	18.0%	15.0%	2015 to 2016
3	21.0%	18.0%	2015 to 2016
4	25.0%	15.0%	2015 to 2016
5	25.0%	20.0%	2015 to 2016
6	25.0%	22.0%	2015 to 2016
7	25.0%	10.0%	2015 to 2016
8	22.5%	32.0%	2015 to 2016
9	23.0%	23.0%	2017 to 2018
10	15.0%	20.1%	2017 to 2018
11	25.0%	12.0%	2017 to 2018
Median	**23.0%**	**20.0%**	
Average	**22.0%**	**18.9%**	

Source: Survey

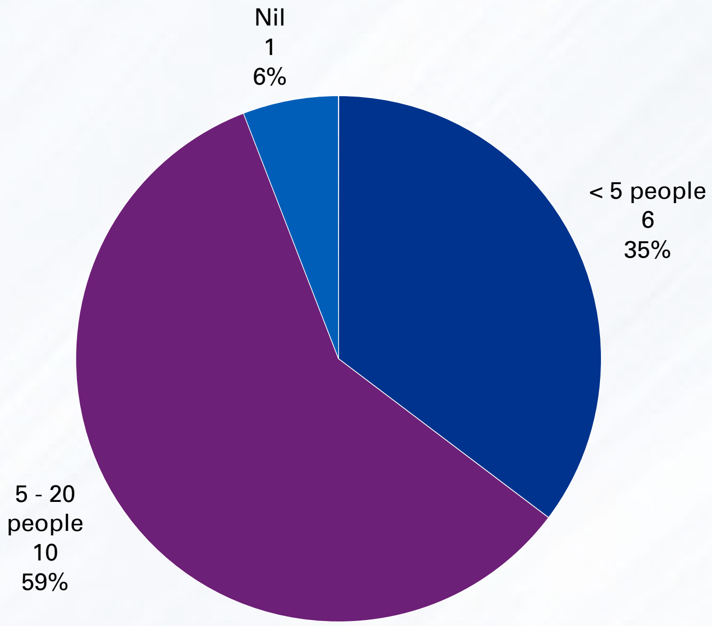
— Of the 11 respondents, only 3 exceeded their IRR target while 1 was on target. 7 respondents indicated a lower actual IRR compared to their gross target IRR, albeit, with the majority having an IRR higher than local government security instruments.



2017 to 2018 exits collectively reported an gross actual IRR of 28% versus a target of 14%. This was a contrast to 2015 to 2016 exits where gross actual IRR averaged at 19% compared to a target of 22%.

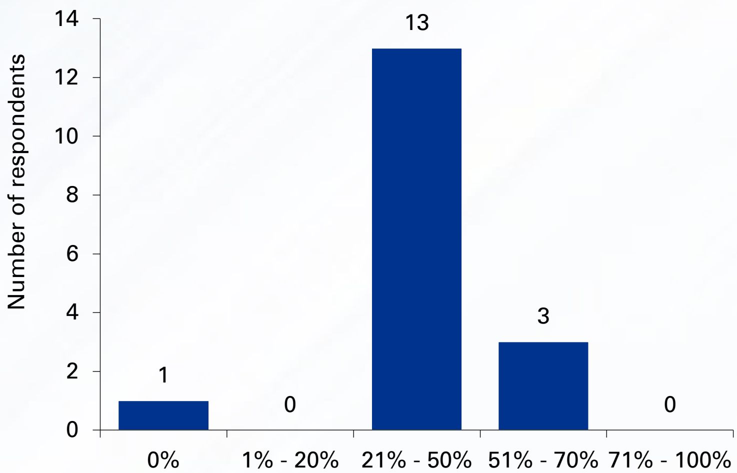
Fund strategy: Investment professionals

Investment professionals at their East Africa office



Source: Survey

Proportion of female employees in local office



Source: Survey

— Out of the 24 respondents, 17 (71%) respondents reported having local offices in East Africa. Of these, 59% reported the average number of investment professionals as 5 to 20. This indicates a preference for local presence as opposed to a fly in model of investing.

— 13 (76%) are reported to have between 21% to 50% of employees being female. This is consistent to prior Surveys.

The average number of investment professionals across the PE funds has increased from 1 to 5 between 2007 to 2014 and 5 to 20 between 2015 to 2018. The % of female employees has remained stable between 21% to 50% of the total workforce.

Fund strategy: ESG

Environmental, social and governance (ESG) and impact

Of the 44 respondents, 20 respondents acknowledged that ESG is priority to investing. Respondents indicated that:

- ESG is part of their investment screening process,
- they have a dedicated team that focuses on ESG,
- they have an ESG policy for their portfolio companies, and
- there is a quarterly reporting on ESG matters.

All of the respondents indicated they give environmental, social and governance matters very high importance pre- and post-investment.

6 List of participants

List of participants

Name of participant	Head office
ACT	Ireland
Acumen	USA
Adenia	Côte d'Ivoire
Afric Invest	Kenya
Agrivie	South Africa
AHL Venture Partners	Canada
African Infrastructure Investment Management	South Africa
Amethis Finance	France
Ascent Africa	Ethiopia
Blue Haven Initiative	USA
Business Partners	South Africa
Caryle	USA
Cassia Capital	Nairobi
Catalyst Principal	Kenya
CDC Group	UK
Centum Investments	Kenya
Cepheus Capital	Ethiopia
Cerberus Frontier	USA
Chandaria Capital	Kenya
The Co-operative Insurance Company of Kenya Limited	Kenya
Consult Nimai	United Arab Emirates (UAE)
Creadev	France
Cross Boundary	Nairobi
Cytonn Investments	Kenya
DOB Equity	The Netherlands
Development Partners International LLP	United Kingdom

Note: In total, for the 2017 to 2018 Survey, there were 51 anonymous respondents. Of these 7 were duplicates, 8 completed the Survey and 36 partially completed the Survey. In cases of duplicate responses from the same fund, we selected the single most reasonable response in preparing the analysis contained in this report. We have discarded other duplicate responses in the analysis to avoid misrepresentation.

Name of participant	Head office
Energy Access Ventures Africa	Kenya
ECP Investements	Cameroon
Ethos	South Africa
Fanisi	Kenya
Fusion Group Africa	Kenya
Grey Elephant Ventures	Kenya
HEVA Fund	Kenya
Kawi Safi Ventures	Kenya
Kibo Capital	Mauritius
Kuramo Capital	USA
LeapFrog Invest	South Africa
Lundin Foundation	Canada
Maris Africa	Mauritius
Metier	South Africa
Norfund	Norway
Novastar Ventures	Mauritius
Partech Partners	USA
Pearl Capital	Uganda
Phatisa	Mauritius
Progression Africa	Kenya
Responsability	Switzerland
Savannah	Kenya
Swedfund	Sweden
Tiserin Capital	Kenya
Tlcom Capital	USA
XSML Capital	The Netherlands
ZMLP	USA

Note: In total, for the 2017 to 2018 Survey, there were 51 anonymous respondents. Of these 7 were duplicates, 8 completed the Survey and 36 partially completed the Survey. In cases of duplicate responses from the same fund, we selected the single most reasonable response in preparing the analysis contained in this report. We have discarded other duplicate responses in the analysis to avoid misrepresentation.

7 Glossary

Glossary

AUM	Assets/Funds Under Management
ACVA	African Venture Capital Association
DFI	Development Finance Institutions
East Africa	For the purpose of this Survey comprises of Kenya, Ethiopia, Tanzania, Uganda and Rwanda
EAVCA	East African Venture Capital Association
ENR	Energy and Natural Resources
ESG	Environmental, Social and Governance
FMCG	Fast Moving Consumer Goods
FS	Financial Services
GCCS	KPMG's Global Compliance Confirmation System
GPs	General Partners
H1 2019	Four months covering January to April 2019
ICT	Information and Communication Technology
LPs	Limited Partners
PE	Private Equity
TMT	Telecommunications, Media and Technology
SMEs	Small and medium sized enterprises
Survey	Private Equity Sector Survey of East Africa for the period 2007 to 2014, 2015 to 2016 and 2017 to 2018
USD	United States Dollar


EAVCA
East Africa Venture Capital Association
5th Annual
Private Equity
in East Africa
Conference
13 JUNE 2019
The Sheraton,
Addis Ababa, Ethiopia.
Members $400
Non-Members $600
Register online now
2019CONFERENCE.EAVCA.ORG
#EAVCA2019
#EAVCAinEthiopia
PLATINUM
ALN
GOLD
SOFTWARE TECHNOLOGIES
People | Processes | Governance
CEPHEUS
Growth Capital Partners
SILVER
DLA PIPER
AFRICA
CDC
Investment works
ETHOS
RESEARCH
KPMG
NETWORKING
ZOSCALES | PARTNERS
MEDIA
PensionsAfrica
AfCD Africa Capital Digest
AsokoInsight


There are new competitors with a fresh vision.
Is your company agile enough to outpace them?
Using innovative tools, thinking and frameworks, KPMG can help adapt your business in the face of constant disruption. Learn more at KPMG.com
Anticipate tomorrow. Deliver today.
KPMG
© 2019 KPMG Advisory Services Limited, a Kenyan Limited Liability Company and a member firm of the KPMG network of independent member firms affiliated uwith KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Contacts

The contacts at KPMG in connection with this report are:

Josphat Mwaura

CEO and Senior Partner

KPMG Advisory Services Limited

Tel:+254202806000

Mob:+254709576333

jmwaura@kpmg.co.ke

Sheel Gill

Partner and Head of Strategy and Deal Advisory

KPMG Advisory Services Limited

Tel:+254 709 576 305

Mob:+254 725 650 283

sheelgill1@kpmg.co.ke

The contact at EAVCA in connection with this report is:

Eva Warigia

Executive Director

East Africa Private Equity and Venture Capital Association (EAVCA)

Tel:+254 722 433212

eva@eavca.org

Important notice

In compiling this information for this survey, KPMG has worked closely with EAVCA, to try to ensure meaningful interpretation and comment has been included in this report. EAVCA reviewed the document prior to its public release, but does not have access to any individually completed questionnaire submitted to KPMG or any other information not presented in this publication.

Although care has been taken in the compilation of the survey results, KPMG and EAVCA do not guarantee the reliability of its sources or of the results presented. Any liability is disclaimed, including incidental or consequential damage arising from errors or omissions in this report