



EXEO  
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BUSINESS INVESTMENT WITH PURPOSE



# PRIVATE EQUITY'S ROLE AND FOCUS IN AFRICA

*By Benjamin Shaw, associate at EXEO Capital*

## POSITIONING PRIVATE EQUITY

Private equity is an asset class that has been gaining significant traction across Africa in recent years. Investment into companies that are not publicly traded is the tailwind behind operational and geographic expansion, product penetration and innovation and has returned close to 8% to investors over a ten-year period. The African Private Capital Association (AVCA) reported that \$7.4bn was invested in private capital across Africa in 2021 alone.

One of the primary benefits of private equity across Africa is its ability to stimulate economic growth. Small and Medium Enterprises (SMEs), defined in this sense as businesses with less than USD 15 million turnover per annum, have the potential to create jobs and transform incumbents' ways of doing things, which often contributes to improved efficiencies and boosts the development of local economies. The World Bank estimates that more than 50% of jobs are created by SMEs globally.

Private equity investors such as EXEO Capital typically look for companies that have the potential for significant growth but lack an input that specialist investors can provide. These strategic advantages often translate in the form of expertise and experience on boards, in hiring processes, strict quality control, striving to operate to international performance standards and in systems and brand best practice, all of which drives improvement in the operations of the companies invested in.

EXEO Capital has extensive experience accumulated over its 15 years of business building in Sub-Saharan Africa and has identified key drivers for long-term value on the continent, which help it identify where best to add value to its investments.

## BRINGING SKILL AND EXPERTISE

Africa can be a tough place to do business. Companies struggle to generate economies of scale given the relatively smaller consumer bases within countries, and high friction costs reduces willingness to transact. Great private equity deals unlock sales volume and forge new distribution channels to market, profitability expanding new revenue streams and diversifying product base.

Coupled to this, businesses that outperform have identified how best to embed switching costs into their products and services and importantly to reduce their own costs through targeted resource efficiency (re-using water, generating own power, recycling etc). Loyalty programmes,

such as what EXEO has worked on with Maia's Wellness Warehouse, and data-driven manufacturing processes, such as has been developed through specialist digital ERP implementation in companies like PPTL in Tanzania, dis-incentivise customers from finding competitive alternatives.

Investing into, protecting and expanding cornered resources is another successful private equity strategy in Africa as the continent has several coveted, uncommon assets that the global market desires. Financial service licences are good examples, as are specific regulatory approvals, fishing, and port berths.

## DOING GOOD

EXEO, like many private equity investors, prioritise investments in local entrepreneurs and businesses. This focus on local support promotes sustainability and an inclusive economy, as it develops talent, guides on meeting international performance standards and provides mentorship. This extends beyond purely business advice; EXEO approaches Environmental, Social and Governance (ESG) and sustainability as core to its purpose: creating value consciously so that companies and people may thrive. This manifests in systematic guidance to investees, focused on those SDGs that intersect with their businesses.

African businesses often trade in small niches, and local founders or businessmen are best positioned to take advantage of this. It is the investor's responsibility to equip, support and partner with them to build competency, sustainability, and ultimately, stakeholder value.

## GENERATING ATTRACTIVE RETURNS

Access to finance is often the most significant challenge for such SMEs across Africa as traditional lending institutions can be reluctant to provide local-currency funding due to the perception of relative risk. Private equity steps in to provide alternative sources of financing that fill this funding gap, willing to explore a variety of opportunities to enable these businesses to expand and flourish.

Private equity investments in Africa have historically delivered attractive returns to investors and compare favourably to certain other emerging market regions.

Beyond the attractive returns, the need to invest into Africa for positive socio-economic impact is increasingly clear. Not only is Africa the fastest growing continent, but it is demographically the youngest. There is real need for investment into development.

## KEY MARKET SECTORS

Despite its wealth of natural resources, Africa's investment needs include agriculture, dealing with the effects of climate change, infrastructure, and education to support its burgeoning population. This has informed EXEO's primary investment focus into food and agriculture.

Agriculture is a vital sector of the African economy, accounting for close to 25% of Sub-Saharan Africa's GDP, and responsible for more than 60% of the population's daily activities. However, the sector faces several challenges, including limited access to finance, poor infrastructure, and a lack of technology and expertise often resulting in land degradation. Identifying and plugging these gaps are critical to successful private equity investments.

## About EXEO Capital:

EXEO has invested across eight countries, 15 sectors and completed 27 transactions since 2008.



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EXEO Fund Advisors (Pty) Ltd is a financial service provider authorised by the Financial Sector Conduct Authority in South Africa (Licence no. 46251), which provides investment advisory services to the Fund Manager and the General Partner. EXEO Capital (the "Promoters") manages its two funds, Agri-Vie Fund I and Agri-Vie Fund II, through Agri-Vie Investment Advisors (Pty) Ltd (Licence no. 33826) and EXEO Fund Advisors (Pty) Ltd (Licence no. 46251), respectively.

EXEO Capital has built up core competencies across the continent and partners with operational service providers able to advise on growth, digitisation, human resources, regulation, conferring positive impacts to people and the environment, margin protection and more conferring positive impacts to people and the environment.

As Africa expects continued growth into 2023 and beyond, the role of experienced, local private equity practitioners remains of critical importance: providing partnerships, sharing expertise and bringing sustainable business practices to growing companies across the continent.

*Riscura-SAVCA Private Equity Performance Report, 31 March 2022*

*AVCA Africa: Private Capital Flows into Africa more than doubled (25 April, 2022)*

*WorldBankBlogs: Quest to better understand the relationship between SME finance and job creation, 14 June 2022*

*INSTEAD: How Africa could astonish the world, 29 Jun 2021*

*McKinsey: Winning in Africa's agricultural market, 15 Feb, 2019*

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