



16th Annual Indaba
Canada-Africa Chamber of Commerce

Case for Investing in Africa

October 16, 2017

CONFIDENTIAL

Sub-Saharan Africa Market Opportunity

Size and diversity of sub-Saharan Africa



Africa is larger than
China, the USA,
Western Europe, India,
Argentina, and the
British Isles...
...combined!

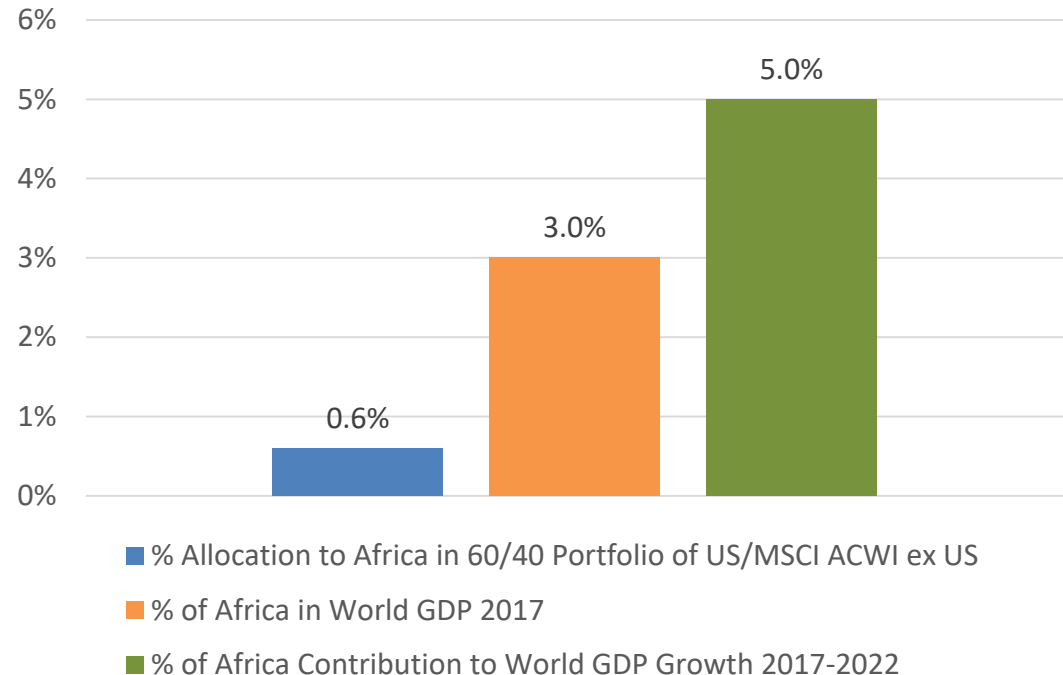
Source: *The Times Atlas*

Sub-Saharan Africa Market Opportunity

Global Indices are Underweighting Africa and Its Growth

- An equity portfolio with a **60/40** split between US and global assets would allocate just **0.6% to Africa equities**
- Africa actually constitutes **3.0% of 2017 global GDP** according the IMF
- Looking a world GDP growth, Africa is an even larger share as the IMF expects Africa to contribute **5.2% of the growth in world GDP from 2017-2022**
- Relying on global indices will result in a significant underweight in Africa and missing out on its higher growth

Higher Allocation to Africa Justified



Source: Bloomberg, IMF World Economic Outlook (April 2017)

Sub-Saharan Africa Market Opportunity

The world is taking notice

FT

FINANCIAL
TIMES

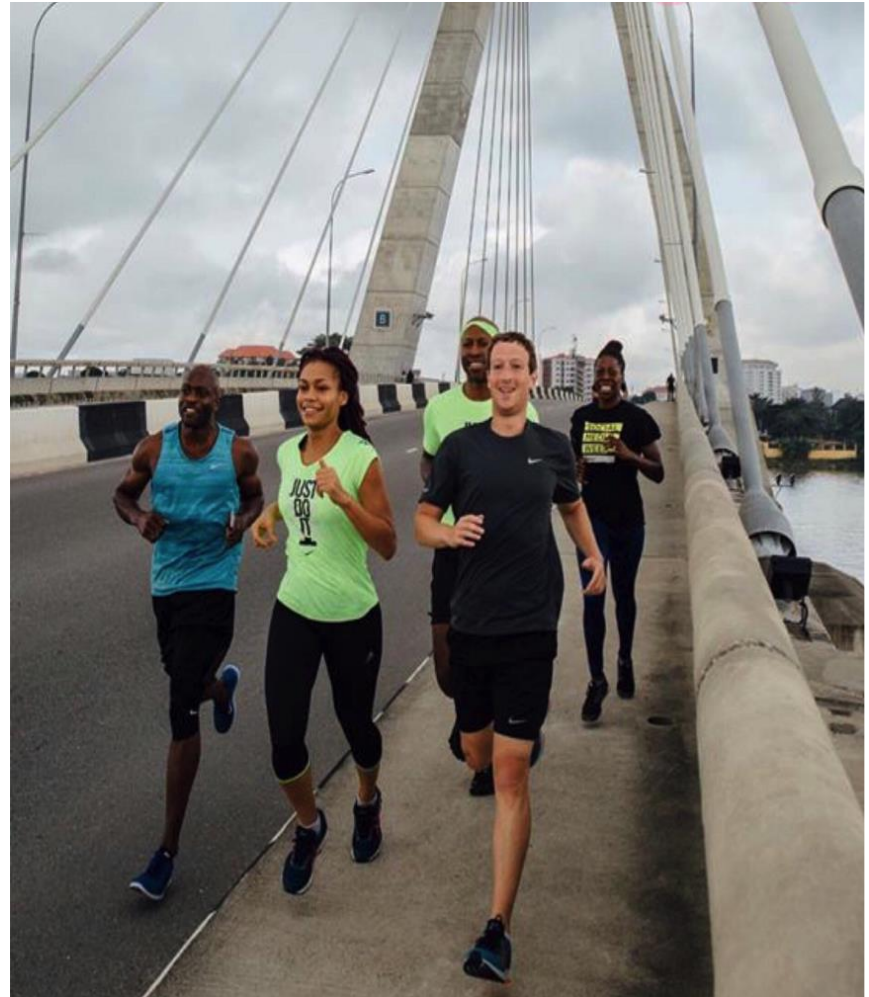
Multinationals announced almost **\$8 billion** in deals across several sectors, demonstrating the appetite that exists to tap the region's growing consumer markets.



"This acquisition is a unique opportunity for AXA to enter the largest African economy with leading positions in all business lines and to get exposure to the fast-growing Nigerian retail insurance market..."

– Denis Duverne, Deputy CEO, AXA,
November 2014

9 out of the top 20 countries that major European and American firms are focusing their attention on in Frontier Markets are in sub-Saharan Africa with Nigeria leading the way. – WSJ Frontiers Market Index, January 2015



Presentation Topics

- ❖ About Kuramo Capital Management
- ❖ The Sub-Saharan Africa Market Opportunity
- ❖ SSA Macro Update and Recent Headlines
- ❖ Capturing the Sub-Saharan Africa Investment Opportunity

About Kuramo Capital Management

Kuramo

- ◆ Investment management firm led by African investment professionals with experience from leading institutions; manager of the **\$300 million** Kuramo Africa Opportunity Funds



Rensselaer

MACARTHUR
The John D. and Catherine T. MacArthur Foundation

J.P.Morgan

McKinsey&Company

FARALLON®



GE Capital

Our Goal

- ◆ Deliver superior risk-adjusted returns by capturing the sub-Saharan Africa growth opportunity through a focus on **smaller, regional and sector managers, as well as direct investments**

Our Edge

- ◆ Global investment experience and leadership at leading institutions
- ◆ Early leader in committing capital across asset classes to Africa
- ◆ On-the-ground presence in Lagos, Nigeria and Nairobi, Kenya
- ◆ Extensive local networks in Africa

About Kuramo Capital Management

Kuramo Thought Leadership

Recent Presentations and Speeches	
Conference/ Event	Location
Sub-Saharan Africa Investment Roundtable	New York
Discussion with Minister of Finance for Nigeria	New York
PAC-DBIA Africa Visit	Abuja, Lagos, Kigali
HoS Conference at UNGA	New York
GES Conference	Nairobi
Kuramo Investor Conference and AVCA	Lagos, Nairobi
Harvard Business School	Boston
SuperReturn Africa	Accra
Wharton Business School	Philadelphia
UN Week Sub-Saharan Africa Day	New York
AiCEO U.S. Investment in Africa	New York
POTUS Roundtables in SSA	Dakar, Johannesburg
Kuramo Sub-Saharan Africa Manager Showcase	NYC, Chicago, San Francisco
SuperReturn Africa	Casablanca
Fund Forum	Boston

Research and White Papers	
Title	Content/ Overview
Asset Allocation Optimization	<i>Upcoming on asset allocation in Africa</i>
Power Sector in SSA	Power sector reforms and investment opportunities
Legal Systems in Africa	Analysis of underlying legal framework and reforms
Evolution of PE in Africa	Analysis of trends in SSA PE
Review of Emerging Tech Sector	Research note on the emerging technology models in SSA
Flexible Mandate White Paper	Kuramo approach to capturing the SSA public market opportunity via “core-satellite” approach

About Kuramo Capital Management

Strong Local Network

NIGERIA



Yemi Osinbajo
Vice President



Kemi Adeosun
Minister of Finance



Okey Enelamah
Minister of Industry

KENYA



William Ruto
Vice President



Adan Mohammed
Industry Minister



Joe Mucheru
Minister for ICT

GHANA



**Excellency
Akufo-Addo**



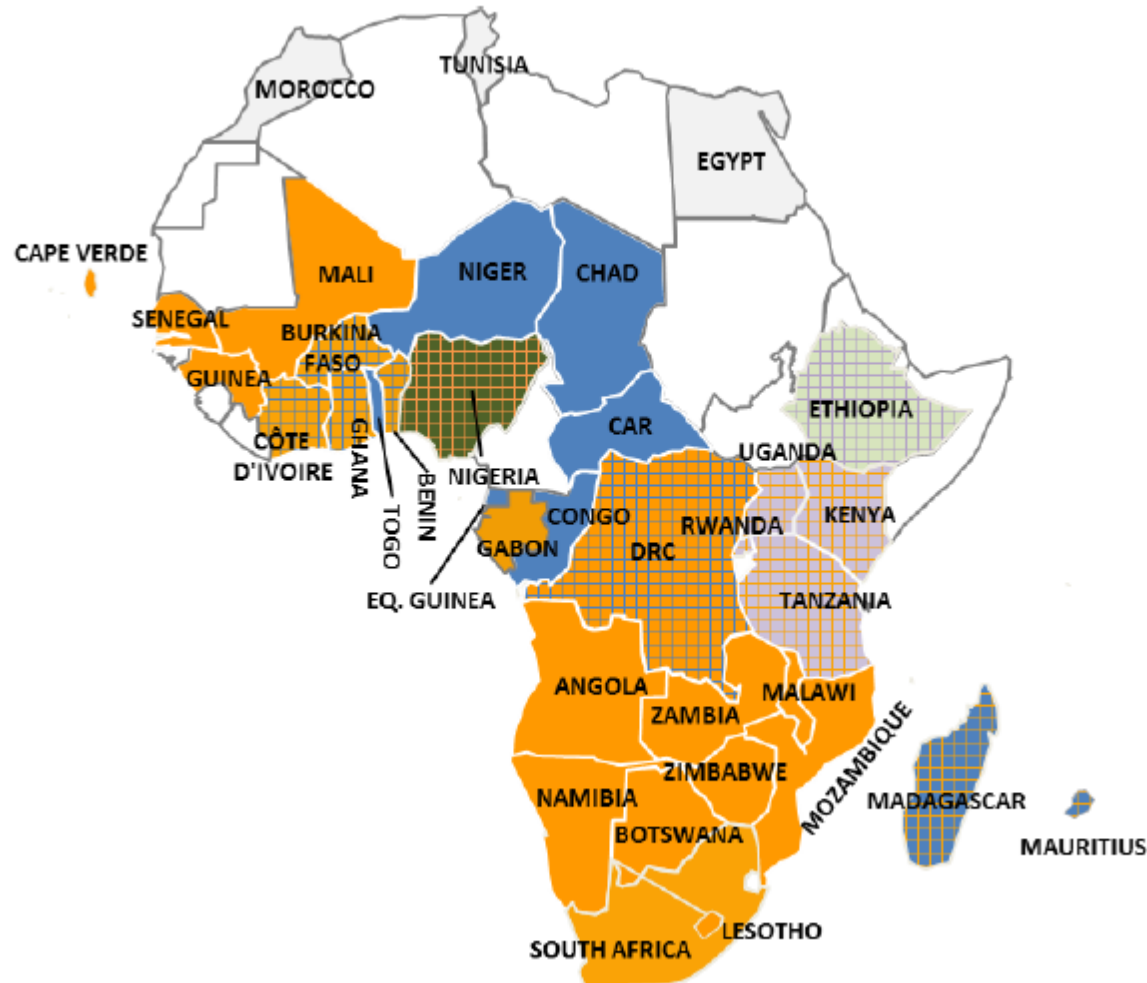
Ken Ofori-Atta
Finance Minister



Sam Jonah, MBE

About Kuramo Capital Management

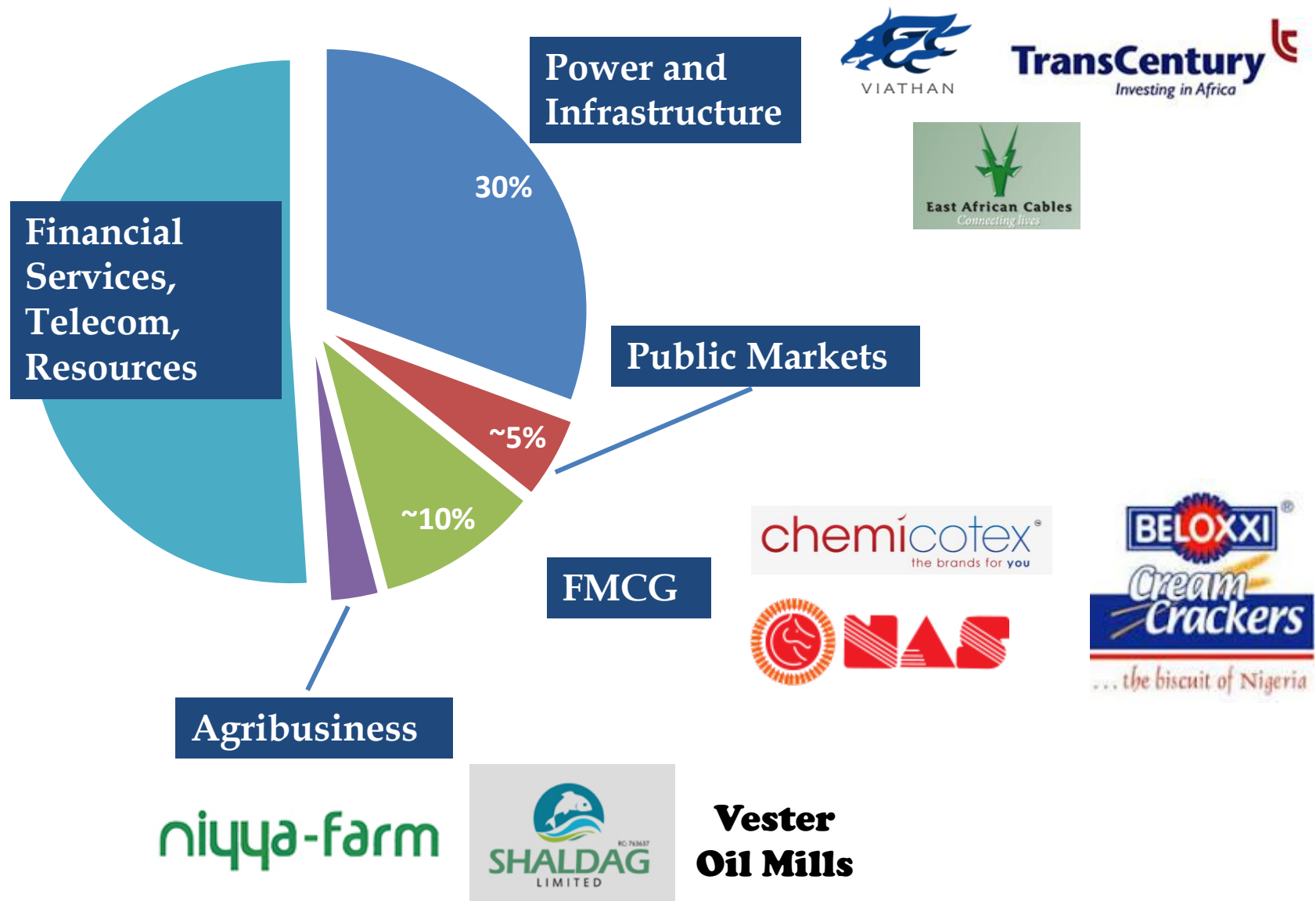
Diversified Portfolio across countries



Kuramo Capital has investments in over 100 companies across 20 African countries in sectors such as FMCG, Telecoms, Power & Financial services

About Kuramo Capital Management

SSA Investment Themes and Sectors – Kuramo Portfolio



Sub-Saharan Africa Market Opportunity

Changing Landscape Provides Growth Opportunities

Favorable Demographics

- ◆ 975 million people
- ◆ Young and growing population
- ◆ Increasing urbanization
- ◆ Fast-growing Middle Class



Attractive Sectors

- ◆ Fast-moving consumer goods (“FMCG”)
- ◆ Natural resources
- ◆ Agriculture (60% of remaining global arable land)
- ◆ Infrastructure
- ◆ Real Estate

Structural Changes

- ◆ Improving political climate
- ◆ Improving governance
- ◆ Improving macroeconomics
- ◆ Increasing regional cooperation

Sub-Saharan Africa Opportunity

The Case for Investing in Africa – Why Africa matters

	Africa in 2013	Africa in 2025
GDP (nominal)	■ \$2.0 trillion, comparable to Brazil, India or Russia	■ \$5.2 trillion
Consumer spending (nominal)	■ \$1.3 trillion	■ \$3.5 trillion (9% CAGR)
Working age population	■ 618 million	■ 845 million
Cities with > 1 million people	■ 52, more than Europe	■ 103
Households with discretionary income	■ 108 million	■ 194 million
Mobile phone users	■ 815 million, 2 nd largest market after Asia	■ 1,141 million

Source: McKinsey & Company, Kuramo

Sub-Saharan Africa Market Opportunity

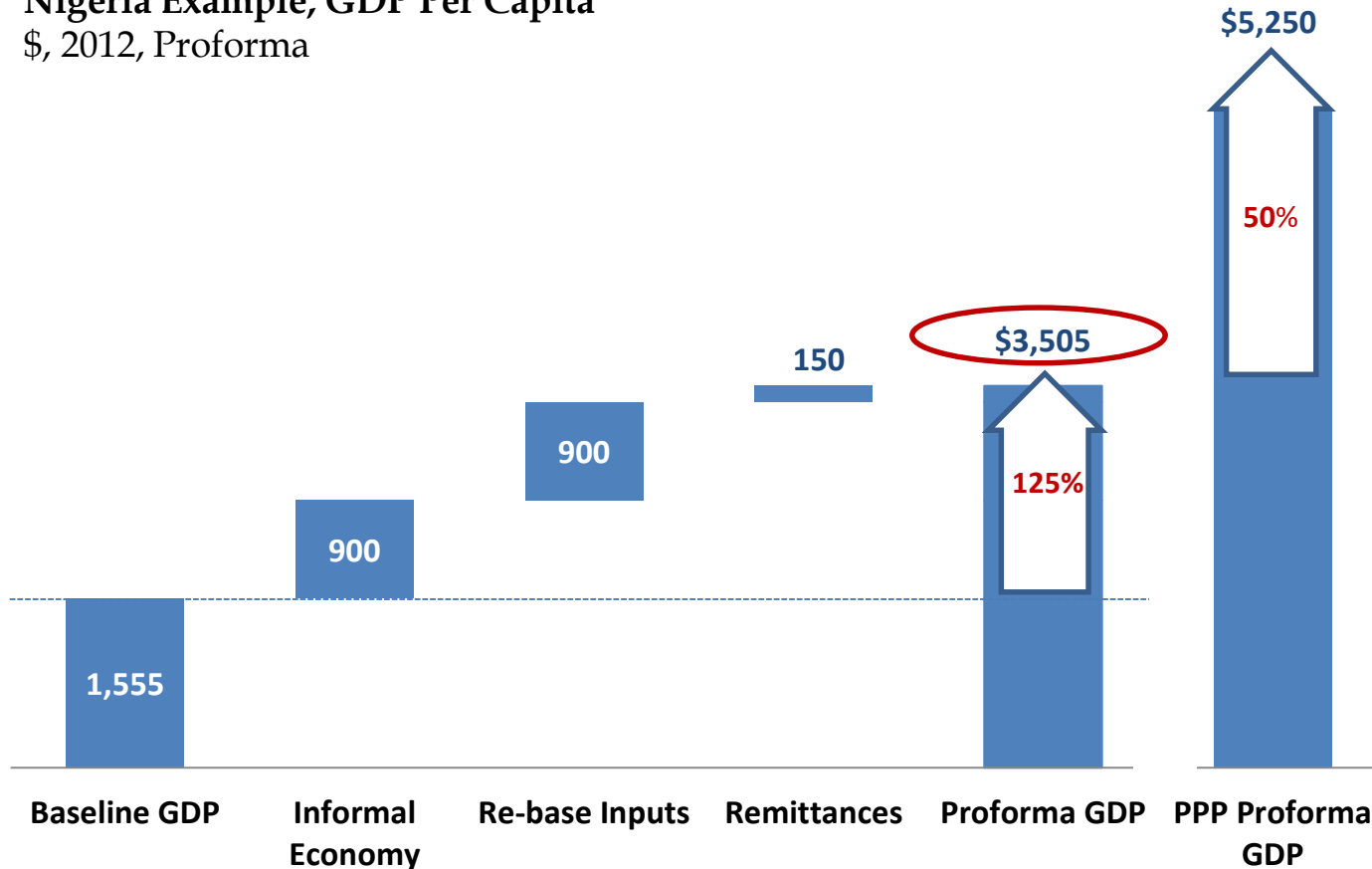
Nigeria and Egypt expected to be top 10 and 20 economies globally

2014			2030		2050	
PPP Rank	Country	GDP at PPP (2014 US\$bn)	Country	Projected GDP at PPP (2014 US\$bn)	Country	Projected GDP at PPP (2014 US\$bn)
1	China	17,632	China	36,112	China	61,079
2	United States	17,416	United States	25,451	India	42,205
3	India	7,277	India	17,138	United States	41,384
4	Japan	4,788	Japan	6,006	Indonesia	12,210
5	Germany	3,621	Indonesia	5,486	Brazil	9,164
6	Russia	3,559	Brazil	4,996	Mexico	8,014
7	Brazil	3,073	Russia	4,854	Japan	7,914
8	France	2,587	Germany	4,590	Russia	7,575
9	Indonesia	2,554	Mexico	3,985	Nigeria	7,345
10	United Kingdom	2,435	United Kingdom	3,586	Germany	6,338
11	Mexico	2,143	France	3,418	United Kingdom	5,744
12	Italy	2,066	Saudi Arabia	3,212	Saudi Arabia	5,488
13	South Korea	1,790	South Korea	2,818	France	5,207
14	Saudi Arabia	1,652	Turkey	2,714	Turkey	5,102
15	Canada	1,579	Italy	2,591	Pakistan	4,253
16	Spain	1,534	Nigeria	2,566	Egypt	4,239
17	Turkey	1,512	Canada	2,219	South Korea	4,142
18	Iran	1,284	Spain	2,175	Italy	3,617
19	Australia	1,100	Iran	1,914	Canada	3,583
20	Nigeria	1,058	Egypt	1,854	Philippines	3,516

Sub-Saharan Africa Market Opportunity

SSA is not a \$1 per day economy

Nigeria Example, GDP Per Capita
\$, 2012, Proforma



Africa's spending power is buoyed by contributions from the informal economy and remittance and other inflows

Source: IMF/World Bank; Kuramo analysis

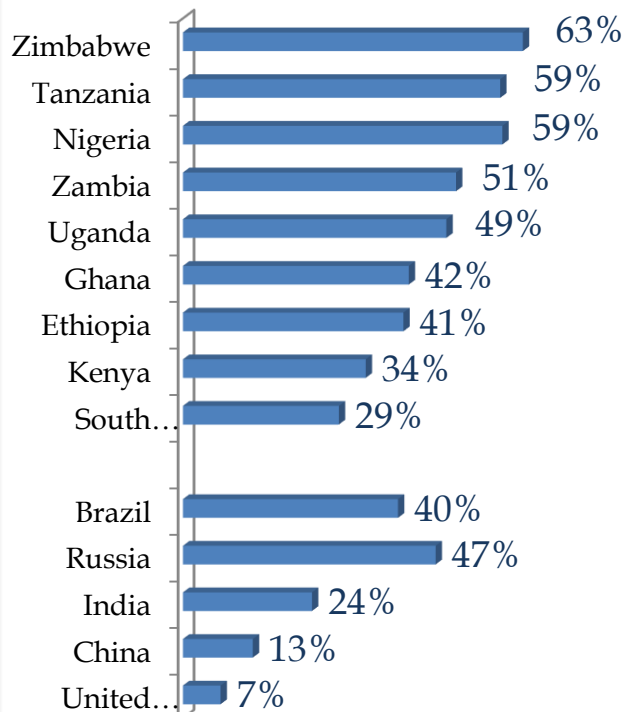
Note: This analysis was performed prior to the re-basing of Nigeria's GDP – and that rebasing substantiated our analysis

Sub-Saharan Africa Market Opportunity

Official growth figures understate the economy

Official SSA statistics do not fully capture the Informal Economy

Size of the Informal Economy
% of official GDP

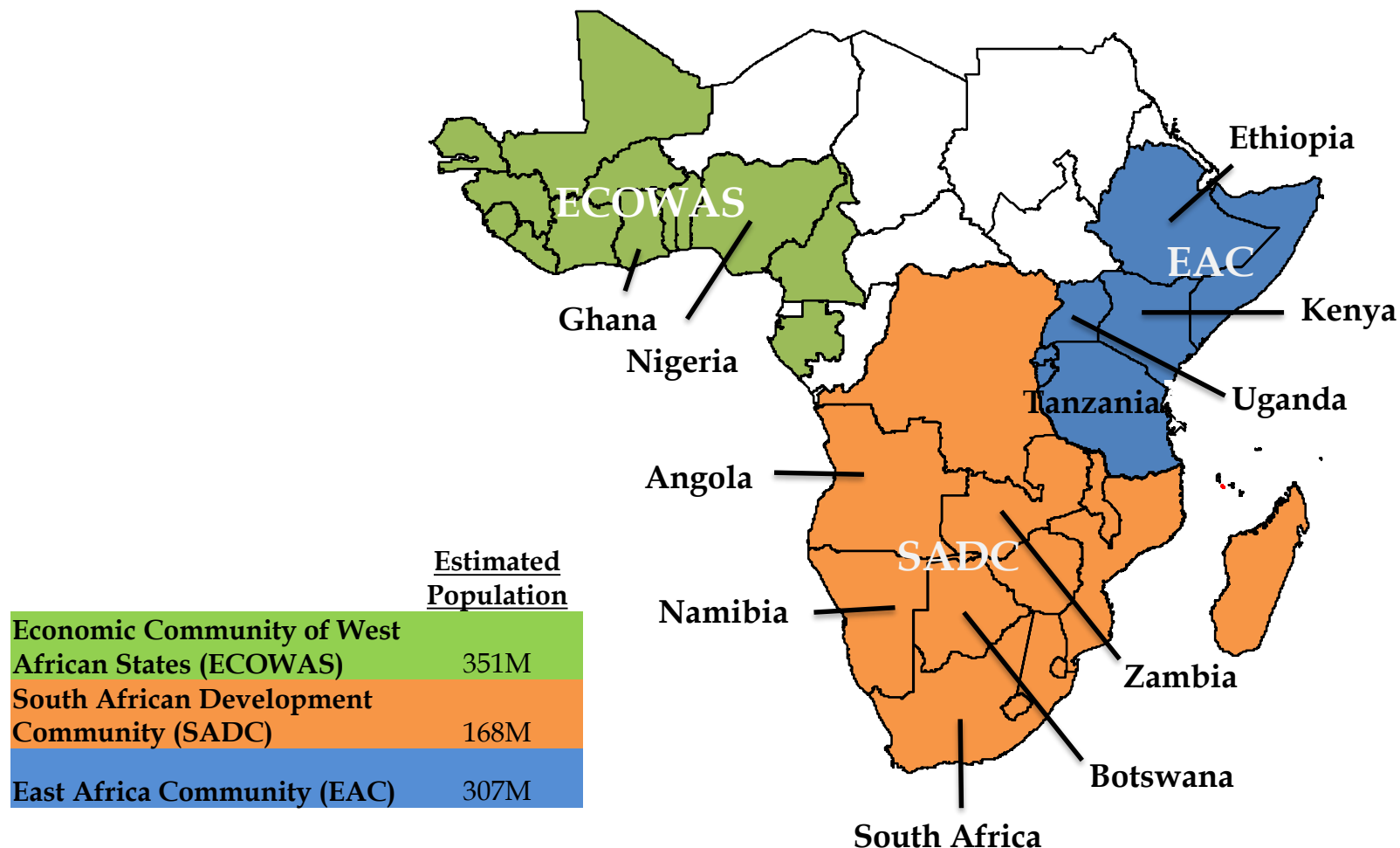


Source: Friedrich Schneider and Andreas Brehn, IMF

Sub-Saharan Africa Market Opportunity

Regional economic cooperation fosters growth

Large economic zones foster economic cooperation and activity



Sub-Saharan Africa Market Opportunity

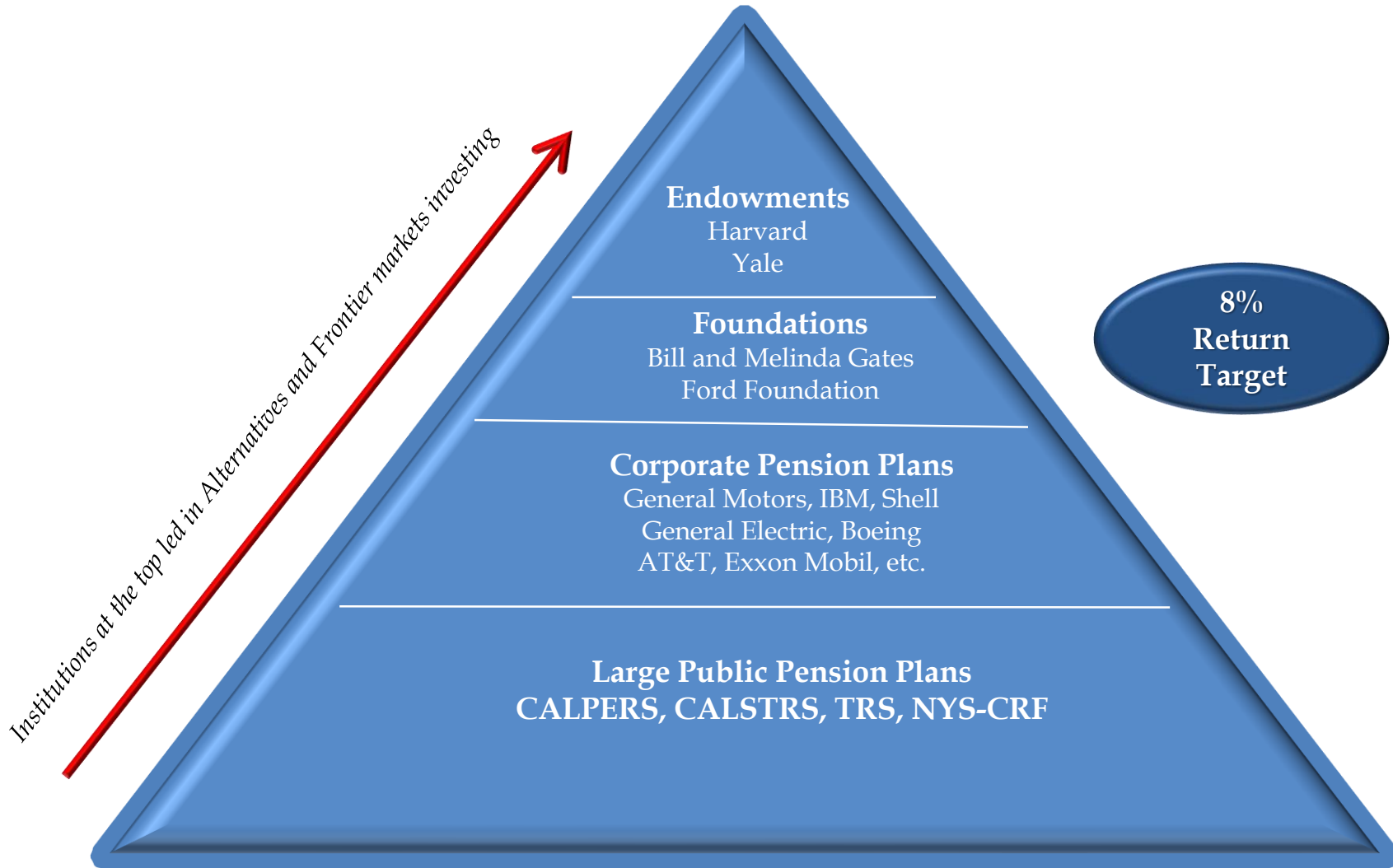
SSA Investment Observations and Insights

POLITICAL STABILITY	Increasing	<ul style="list-style-type: none"> Headlines focus more on risks than reality SSA is experiencing increasing political stability and geopolitical challenges do not translate to business challenges
SECULAR GROWTH TREND	Increasing	<ul style="list-style-type: none"> Secular trend toward increasing economic activity in Frontier markets including SSA Driven largely by positive demographics and urbanization
CITIES	Focus	<ul style="list-style-type: none"> Cities, not countries, are the engines of growth Developing markets cities growing GDP per Capita at 4X
MICRO NOT MACRO	Economics	<ul style="list-style-type: none"> Microeconomics is more important for private investments Strong businesses in the right sectors can grow despite declining macro indicators
LOCAL KNOWLEDGE	Priority	<ul style="list-style-type: none"> Key to opportunity and risks in growth markets is deep local knowledge All businesses are local and partnering with local partners is critical to success

Sub-Saharan Africa Market Opportunity

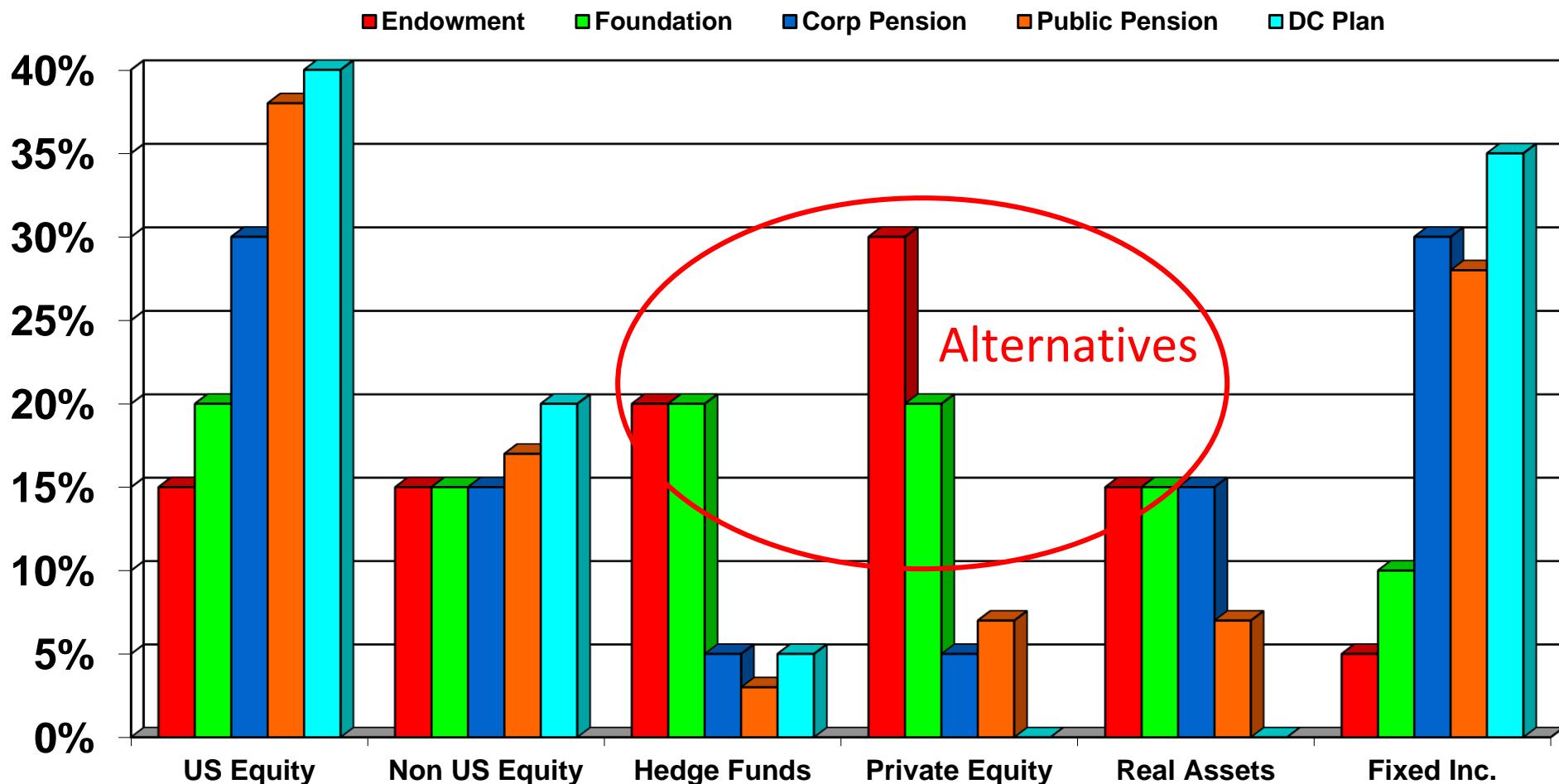
Increasing interest from large pools of capital

Over 2,000 Funds with large assets



Sub-Saharan Africa Market Opportunity

Asset Allocation of Large Capital Pools



Sub-Saharan Africa Market Opportunity

Sub-Saharan Africa's Investment Themes and Sectors

EMERGING CONSUMER	<ul style="list-style-type: none">Increased opportunities in Fast Moving Consumer Goods (FMCG) and need for businesses that promote linkages and market access for Consumer SMEsThese include businesses that provide B2B Supply Chain, Logistics (technology-enabled), and End-to-End Agriculture
ACCESS TO FINANCE	<ul style="list-style-type: none">Lack of access to working capital means expensive bank debt that is only available to businesses with a significant asset baseLow penetration of financial services represents significant opportunity for banks, insurance companies, MFIs, and credits bureaus
TECHNOLOGY	<ul style="list-style-type: none">Technology-enabled companies can be very resilient and highly profitableThese include telecom infrastructure, payment infrastructure, services aggregation platforms, and exchanges/marketplaces
INFRASTRUCTURE	<ul style="list-style-type: none">Significant demand/supply imbalance of basic infrastructure, e.g., power, housing, roads, ports, education, and healthcareHighly-fragmented sectors provide significant opportunity for private players in power, transportation and energy sectors
PUBLIC MARKETS	<ul style="list-style-type: none">Performance over the last few years have created a buying opportunity for companies with relatively attractive valuationsSignificant number of companies with double-digit growth rates, free cash flows and high dividend rates

Sub-Saharan Africa Macro Update

The 3Cs had an impact on SSA in 2015 and 2016

1. Slowdown in China,
one of Africa's largest
trading partners



2. Decline in Oil and
Mining Commodity
Prices



3. Strong Dollar

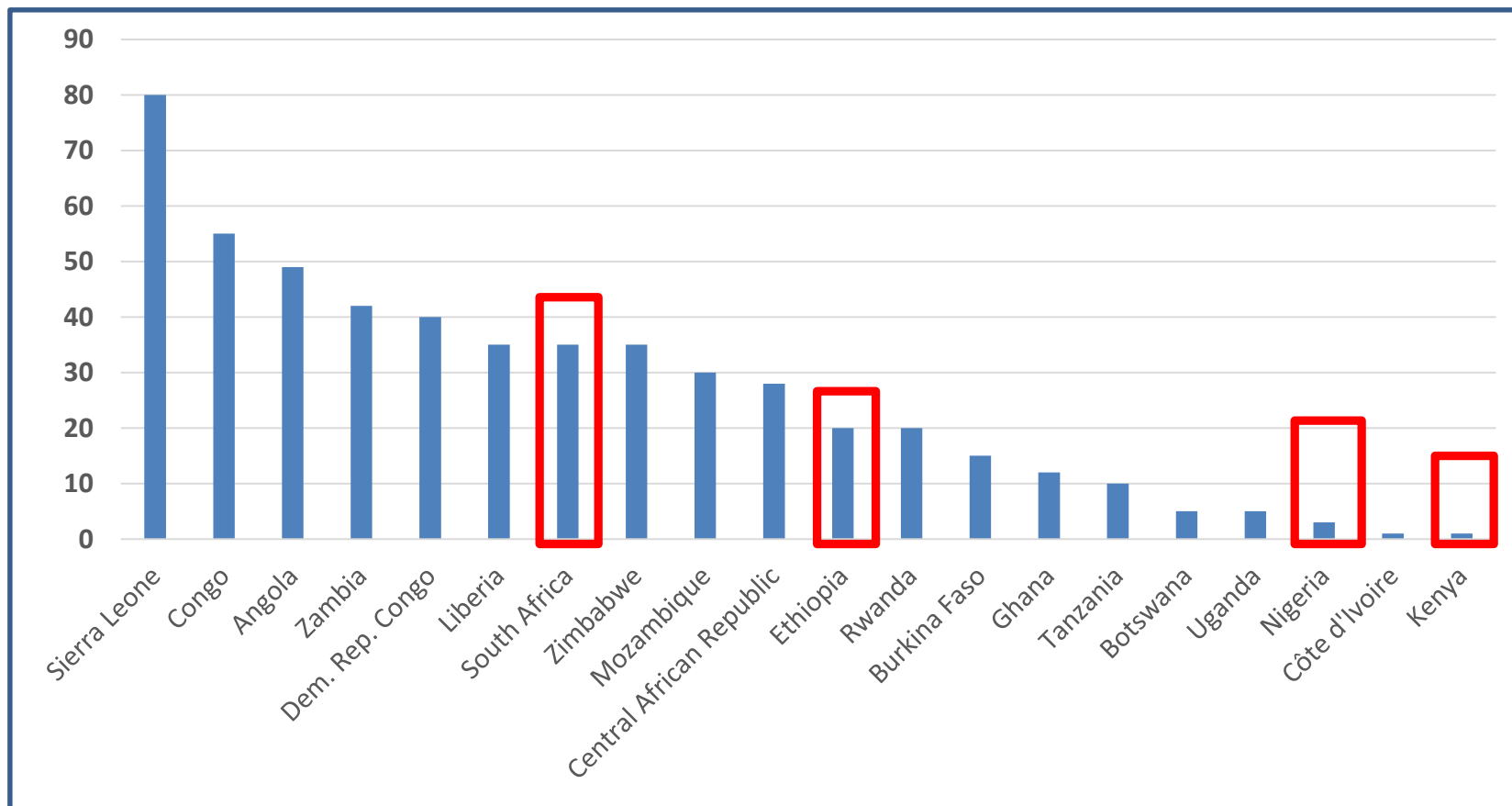


- ◆ Not a uniform impact - divergence in growth between oil producers and oil exporters
- ◆ China impact most severe in handful of countries reliant on exports to China
- ◆ Higher than 10-year trend depreciation

Sub-Saharan Africa Market Opportunity

China is a relatively small trading partner for Nigeria and Kenya

Exports to China as % of total exports



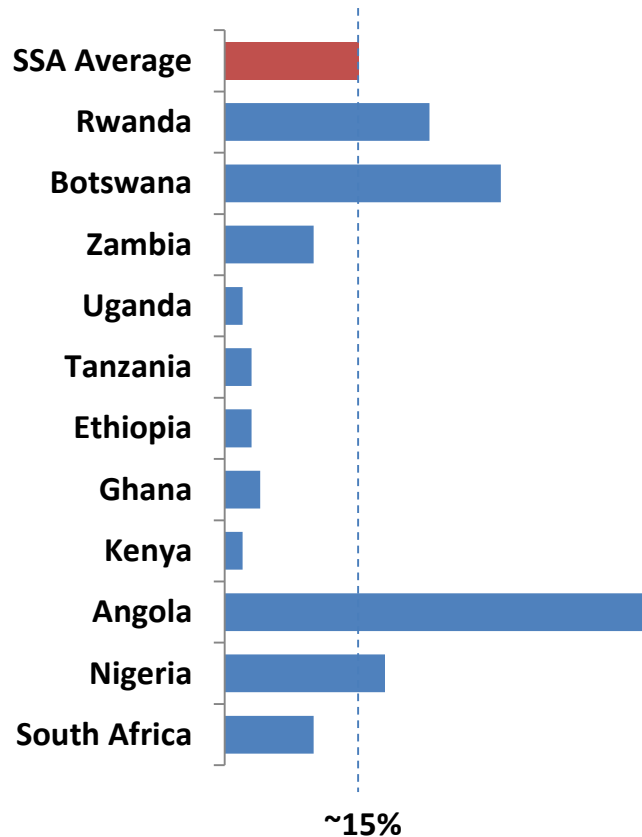
... and an increasing but smaller source of FDI than Europe and North America

Sub-Saharan Africa Market Opportunity

SSA is far more than Natural Resources

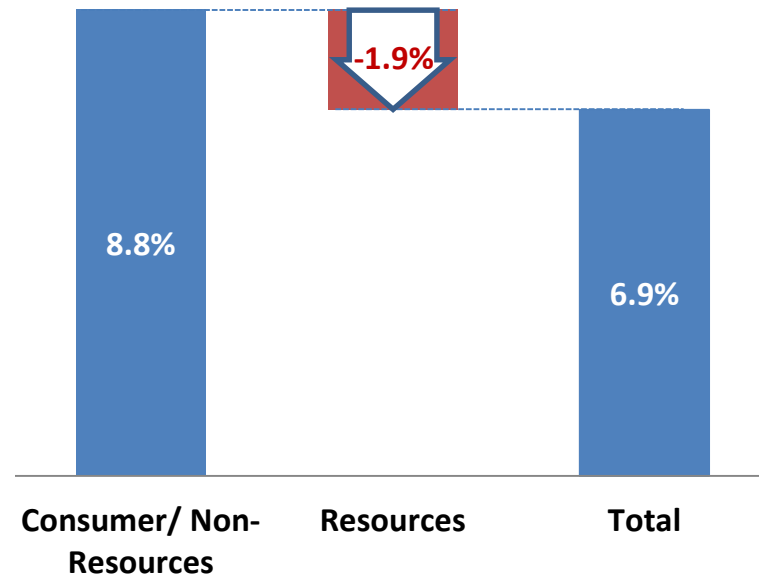
Resources are a small part of SSA

*Resources as % of Overall GDP
2012*



Growth is Driven by Consumer Activity

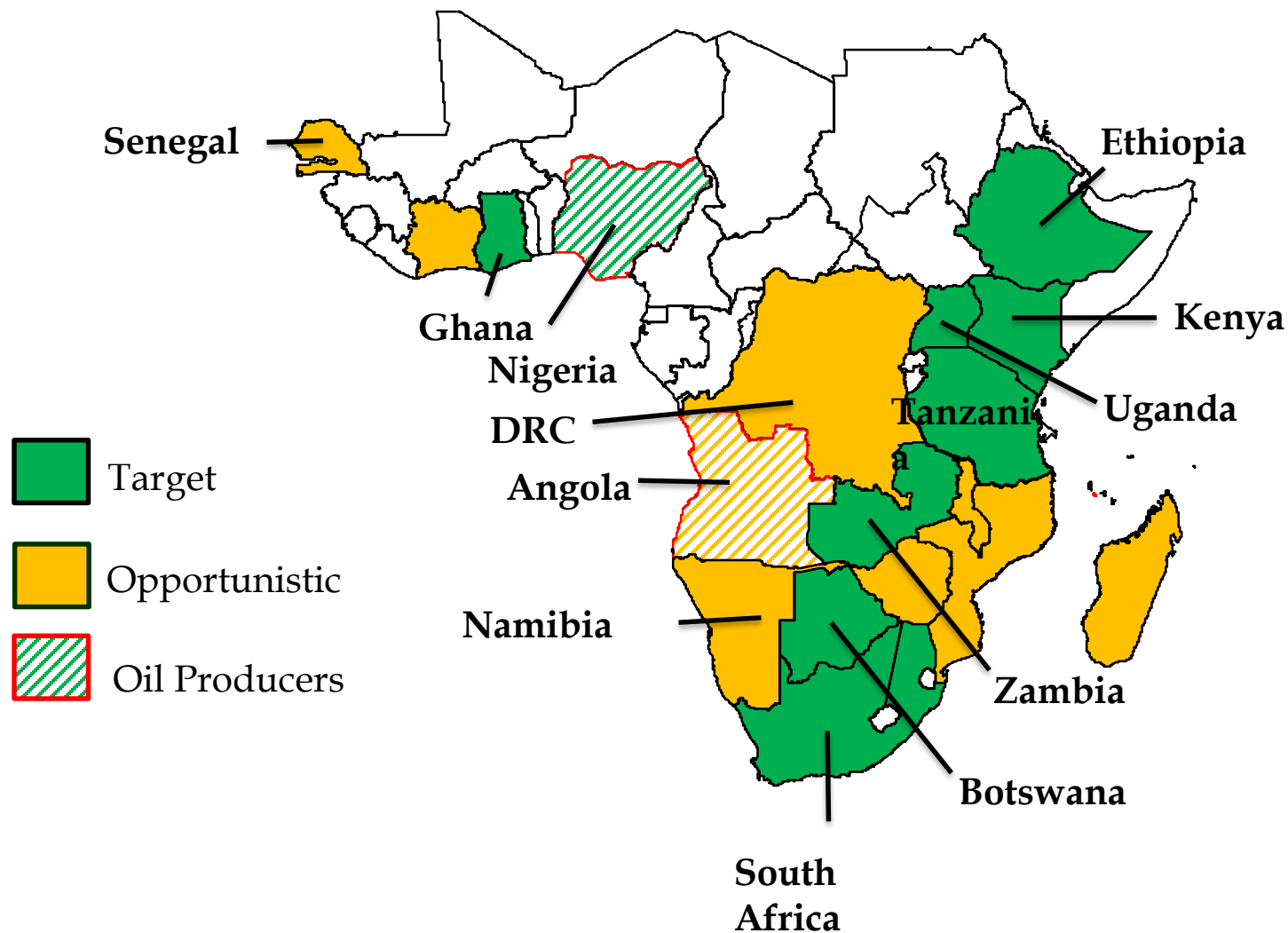
*Nigeria GDP Growth
Annual CAGR, last 5 years*



Source: World Bank; IMF; Central Bank of Nigeria; Kuramo analysis

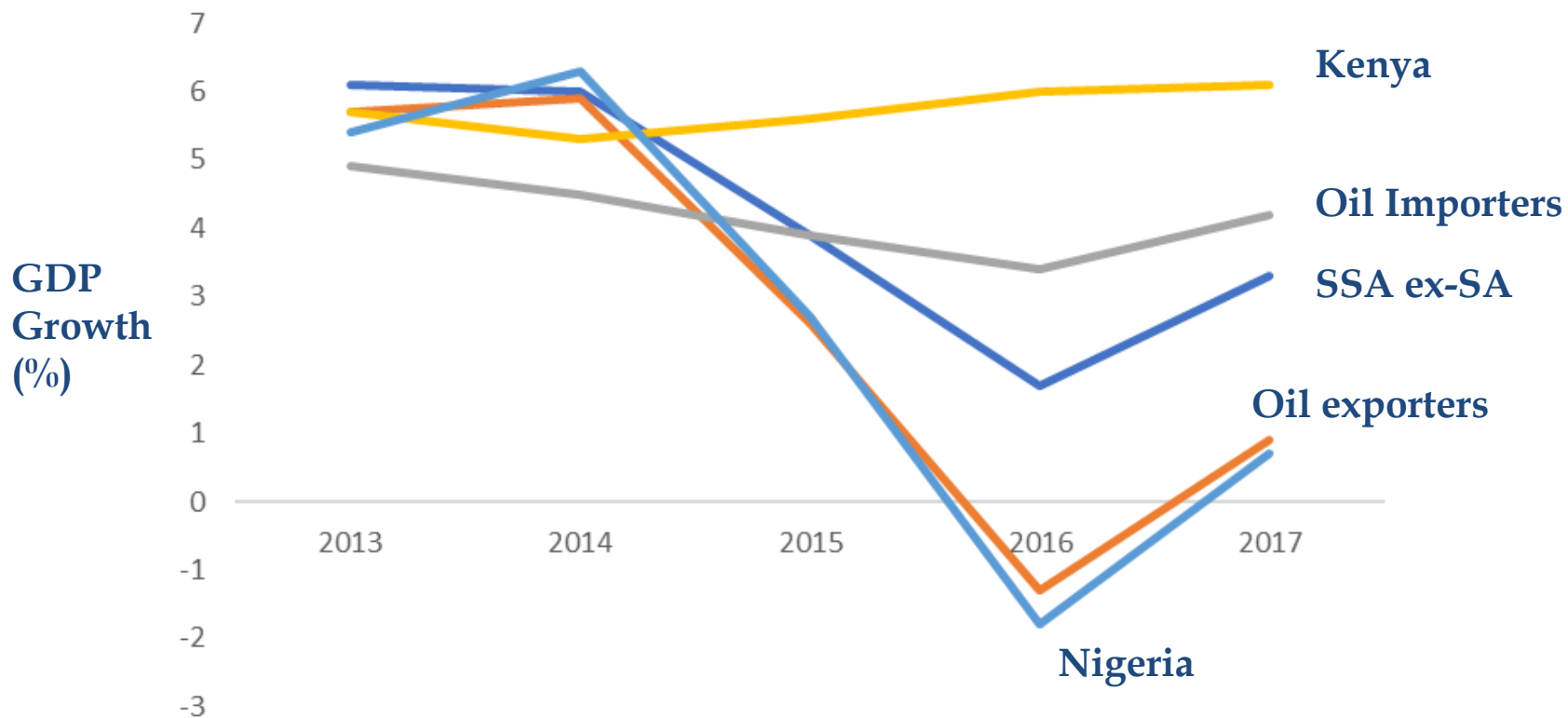
Sub-Saharan Africa Macro Update

Most Target Countries are Oil Importers



Sub-Saharan Africa Macro Update

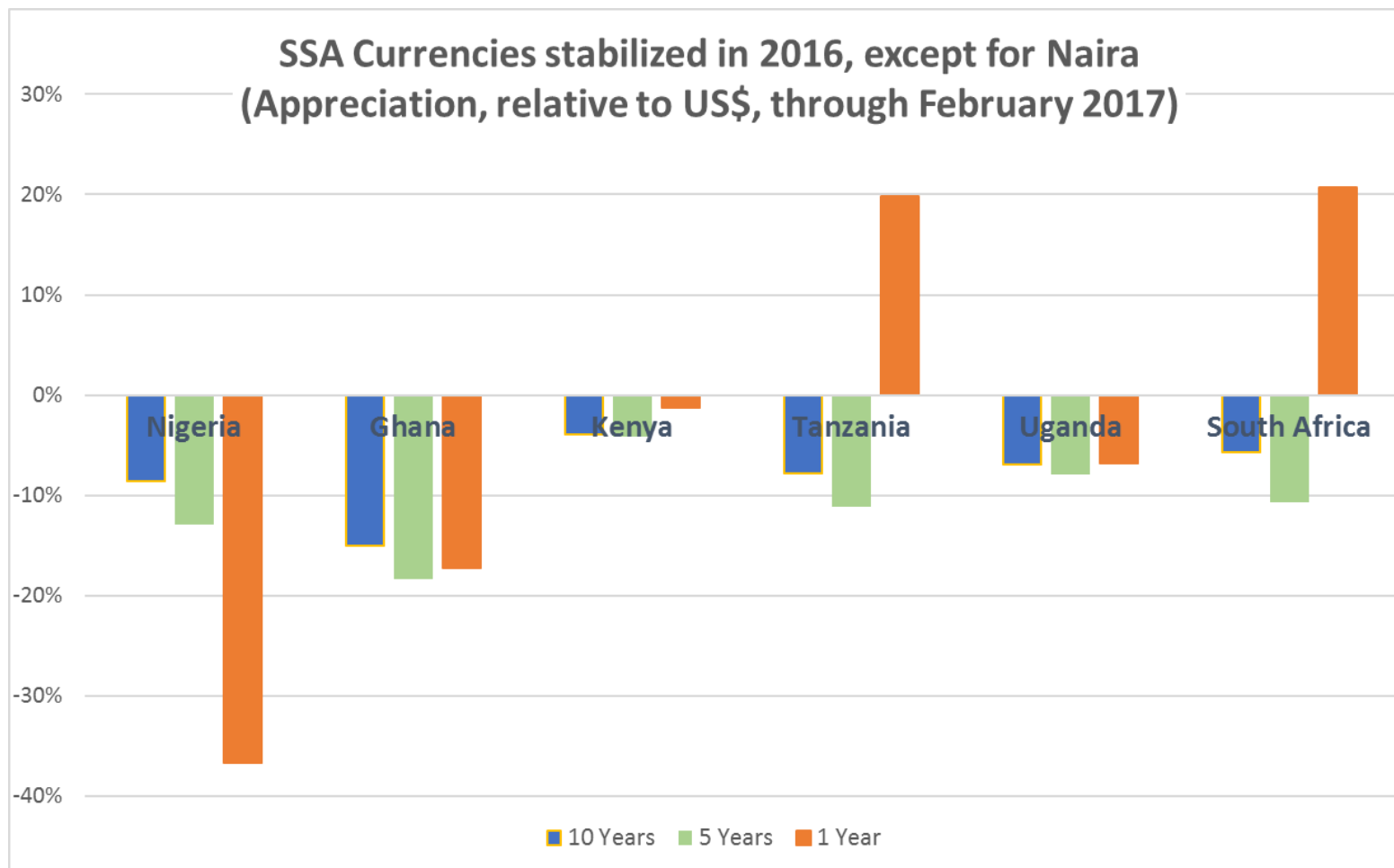
Divergent growth story, and expect a turnaround in 2017



Nigeria and South Africa have seen lower growth projections, but East Africa is benefitting

Sub-Saharan Africa Macro Update

Stable to Appreciating FX

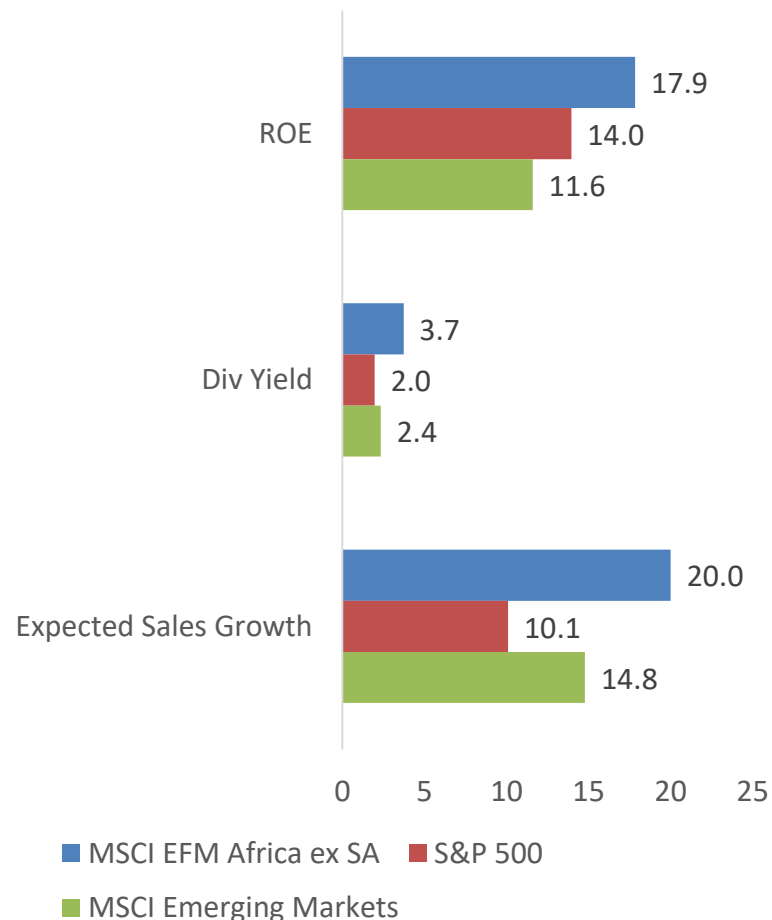
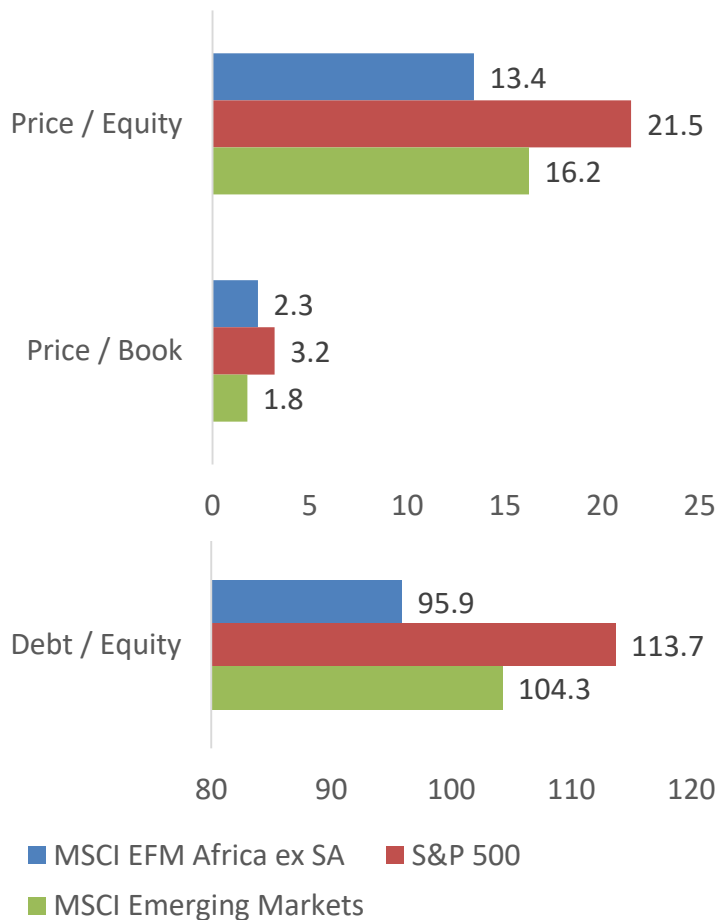


Stable to Appreciating in last 12 months, except Nigeria

Sub-Saharan Africa Macro Update

Attractive Market Valuation Metrics

September 2017



Source: Bloomberg, Sales Growth is Bloomberg's FY1-FY3 estimate

Sub-Saharan Africa Market Opportunity

Recent headlines – renewed focus on Africa and EM

- **TA Associates** acquires 35% of Interswitch Nigeria!
- Eric Mindich's **Eaton Park** closes \$7 Billion Hedge Fund as equity valuations in the US makes it difficult for hedge funds to generate outsized returns while continuing to charge 2% and 20% with no hurdle
- **Carlyle** tells investors to lower future return expectations as there is too much capital chasing fewer deals
- **Denham Capital** says there is \$13 Trillion of Capital chasing \$150 Billion of deals in Power and Infrastructure in developed markets
- **NACUBO** says returns for endowments are negative to flat for second consecutive year
- **Cambridge Associates** encourages investors to consider a private equity approach to investing in Africa

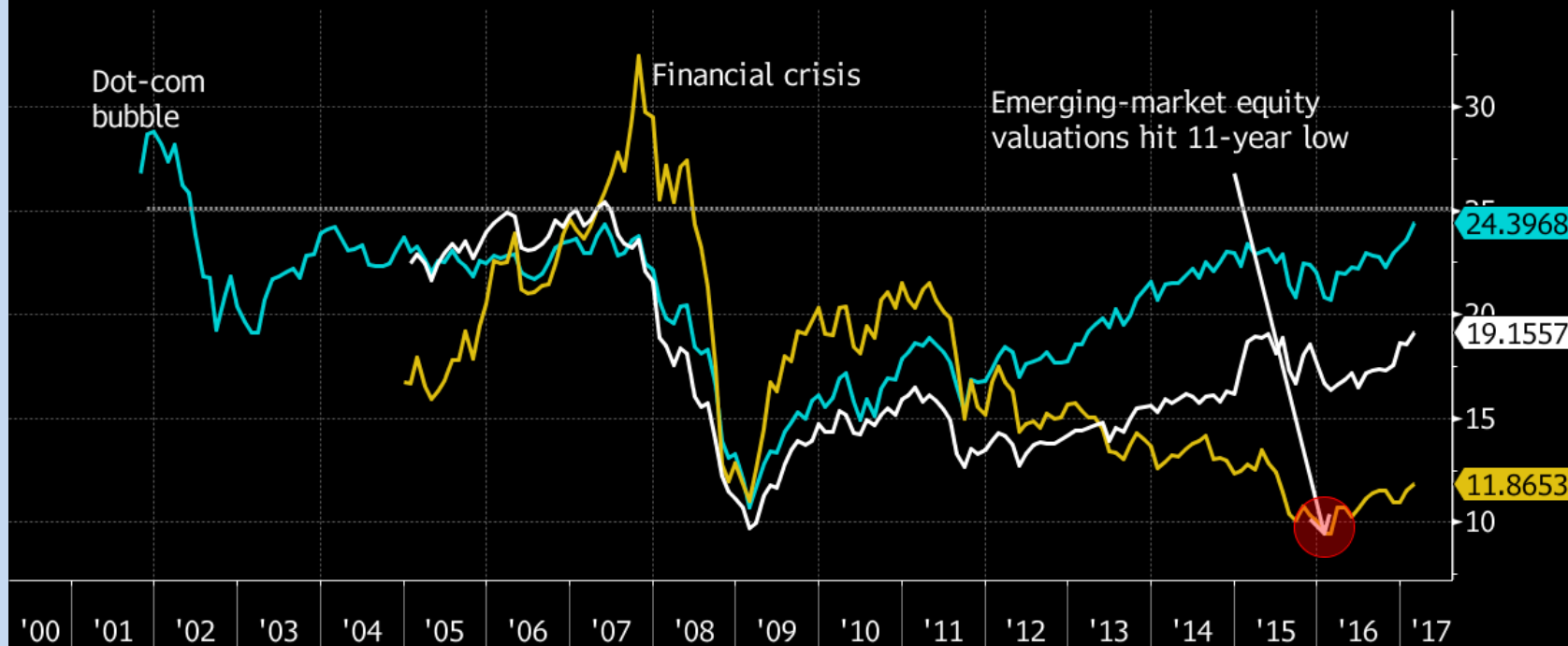
SSA Market Opportunity - Attractive Valuations

Public markets valuations are an indication of private markets bargain!

Bargain Shopping

Emerging-market equity valuations half of U.S. stocks

■ CAPE SPX (MXEF) 24.3968
■ CAPE MXEF (MXEF) 11.8653
■ CAPE MXEU (MXEF) 19.1557

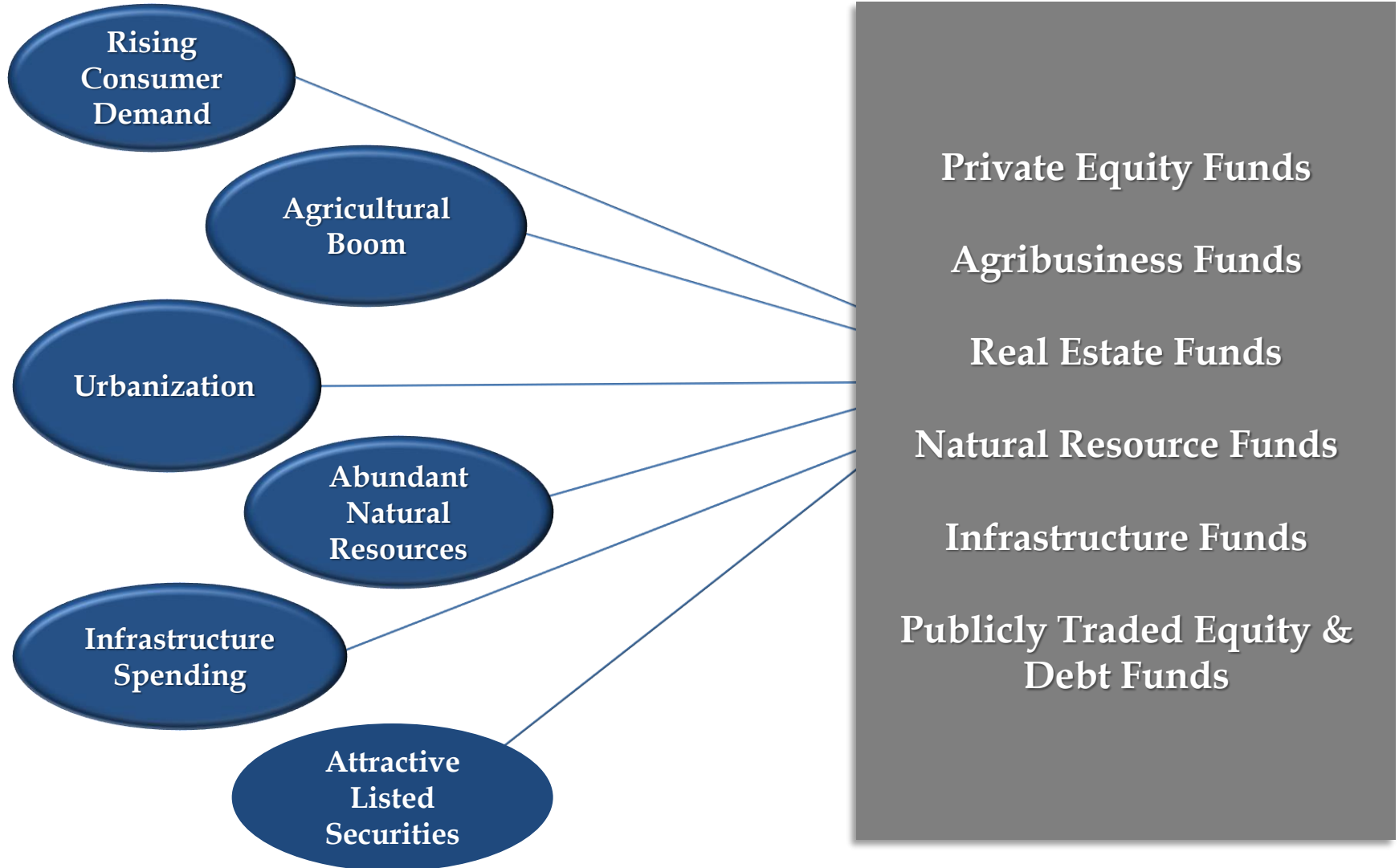


Source: Bloomberg

Bloomberg

Capturing the SSA Investment Opportunity

Multiple Asset Classes to capture the African Market opportunity

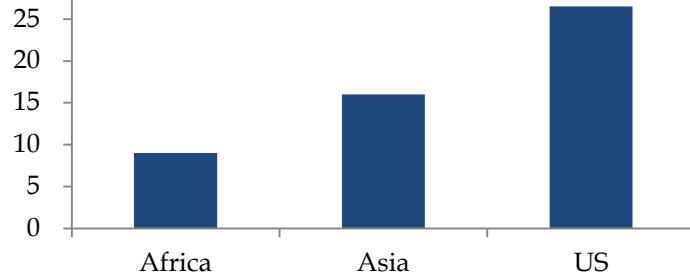


Capturing the SSA Investment Opportunity

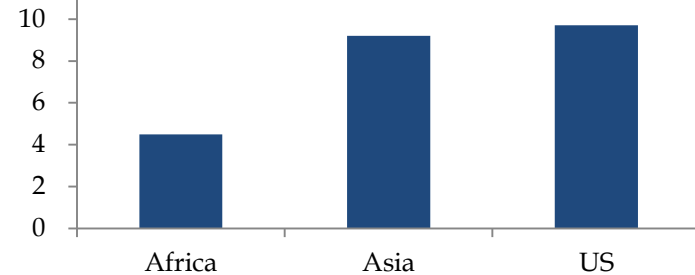
Attractive valuations and low PE penetration in SSA

Public and Private Markets Valuations

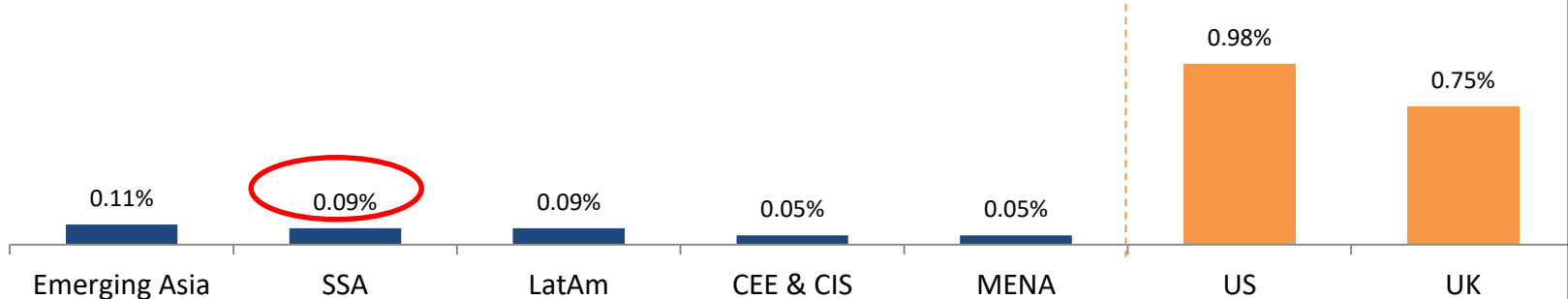
Entry P/E



Entry EV/EBITDA



PE Investment as % of GDP

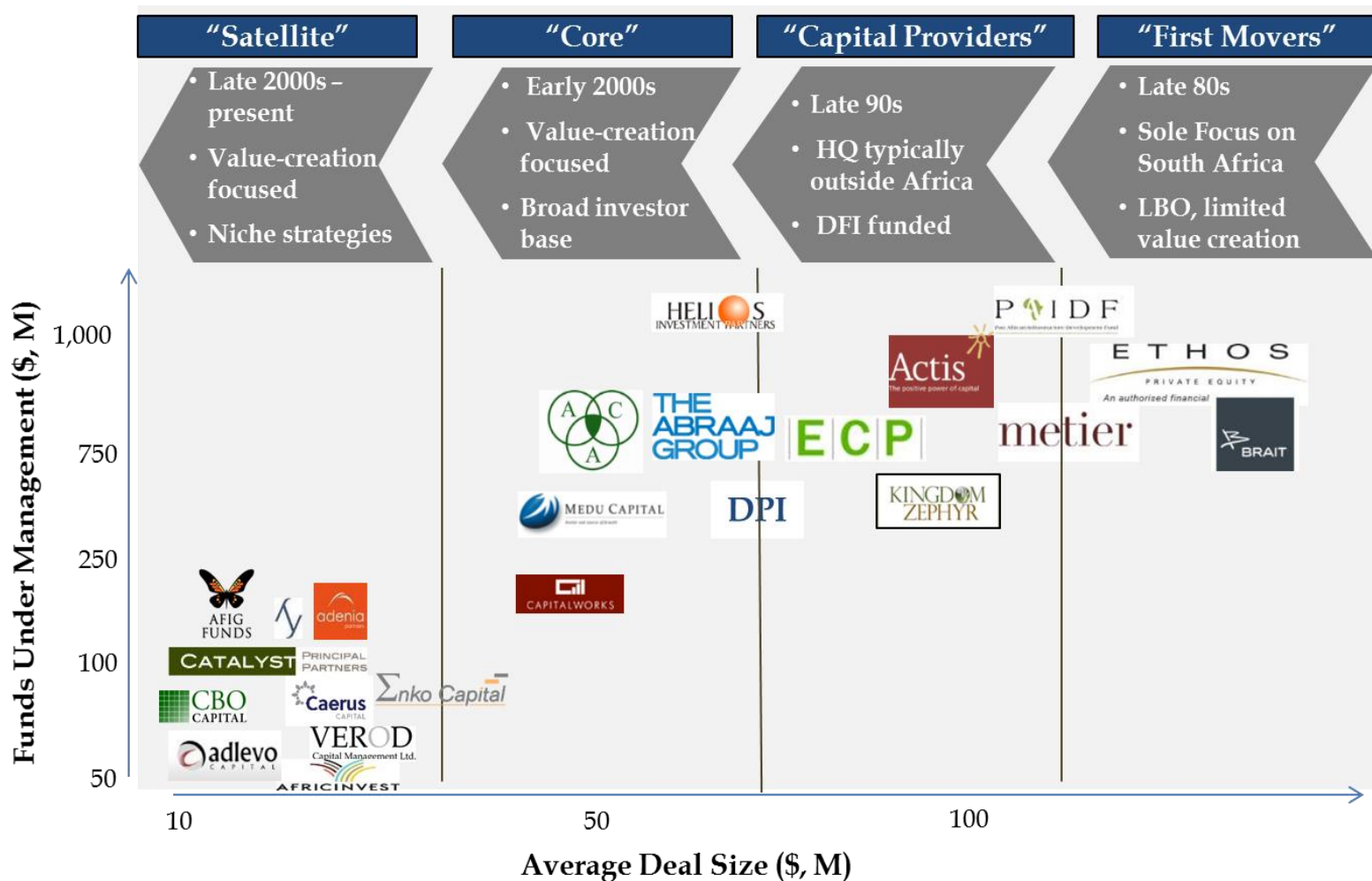


Source: Helios II; Kuramo research

Capturing the SSA Investment Opportunity

Evolution of Private Equity in Africa

At Kuramo Capital, we believe the most attractive PE funds are the Satellite managers with the ability to generate very attractive returns of 3-5x



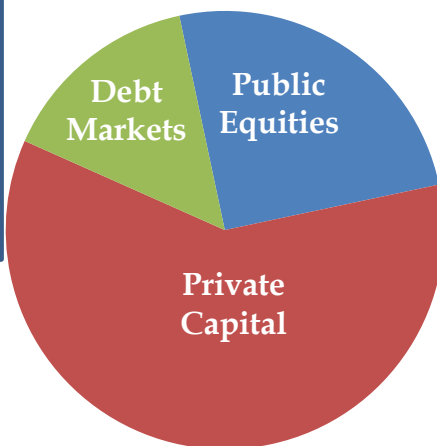
Capturing the SSA Investment Opportunity

SSA Capital markets are developing quickly

Debt Markets

- ◆ **\$300 billion in issuances**
- ◆ ~75% of the overall bond market is in South Africa
- ◆ ~75% is **government bonds** - several high profile US\$ bond issuances over the past 18 months of nearly \$10 billion

Investable
Assets in SSA
>\$ 1 trillion



Public Markets

- ◆ **\$1 trillion in market capitalization** (majority in South Africa)
- ◆ Outside South Africa, **free float is relatively small at 5-10%**
- ◆ Market sectors most represented are the “3 Bs” – namely, **Banks, Brewers, and Builders**

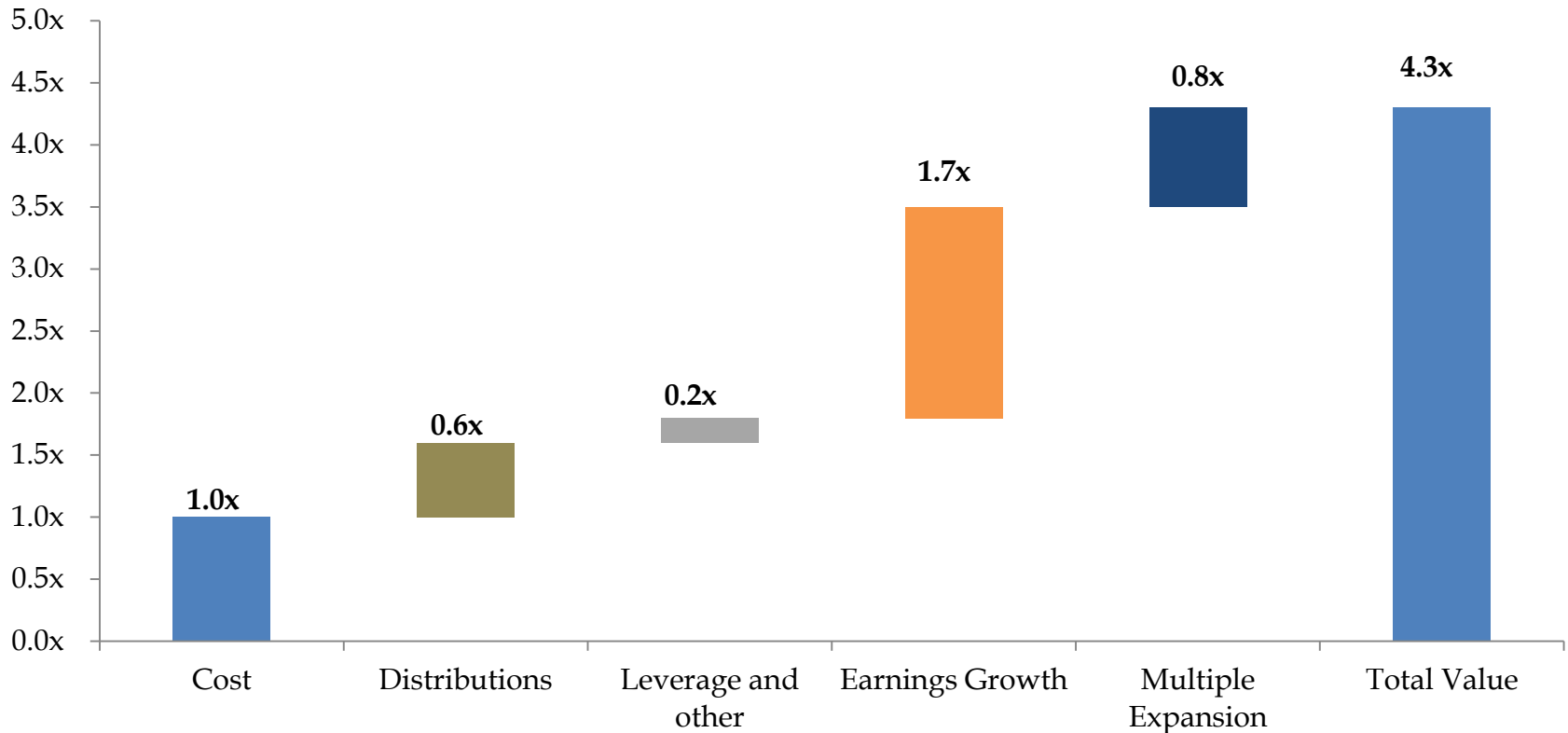
Private Capital and FDI

- ◆ Total private capital inflows to sub-Saharan Africa over the last 10 years of about \$350 billion – includes FDI and private equity
- ◆ **Private capital represents more than 3x portfolio equity flows**
- ◆ **Enormous projected need for private capital going forward to fund investments into infrastructure (power, pipelines, roads, etc.)**

Capturing the SSA Opportunity

Value drivers in Africa PE

Earnings growth is the dominant driver of returns in African PE transactions

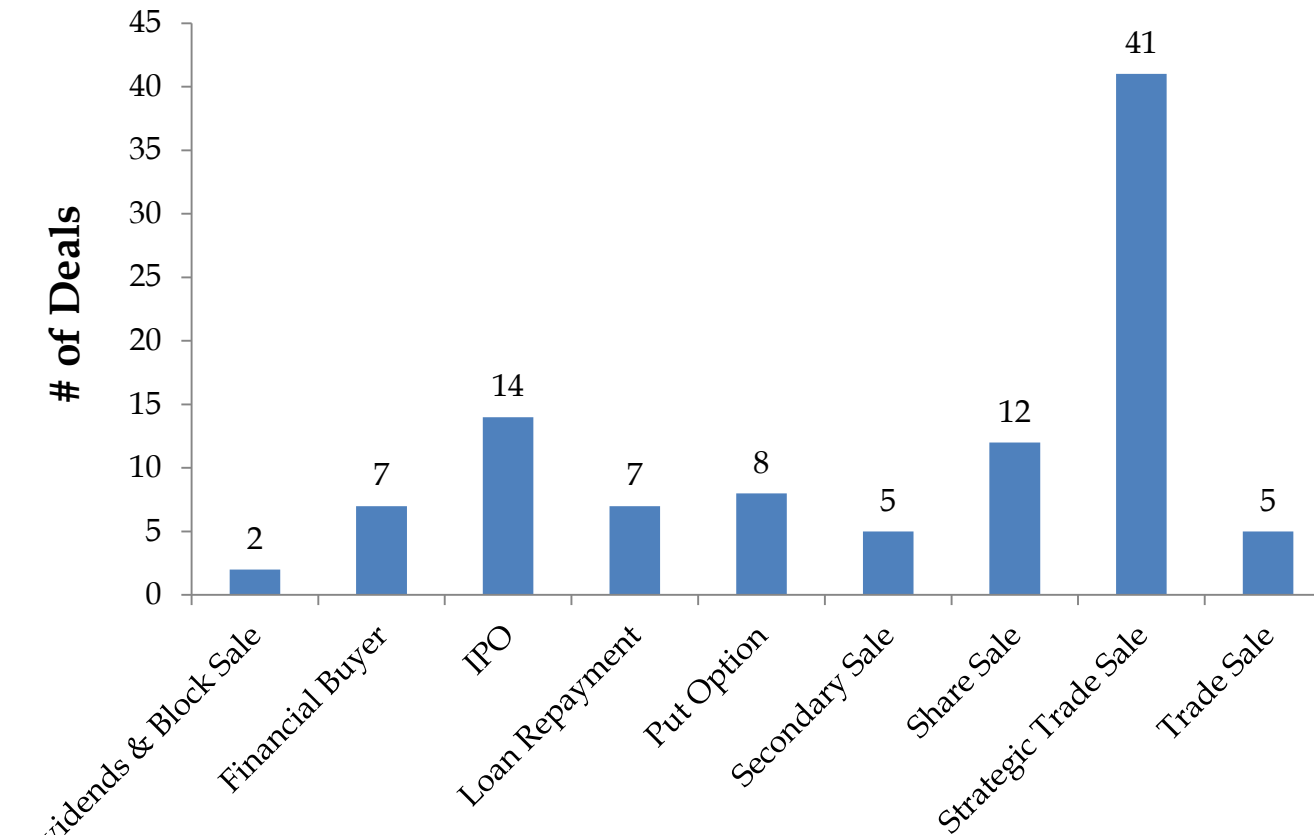


Source: Kuramo Capital, based on weighted average of 26 deals.

Capturing the SSA Opportunity

Multiple routes to exits

Strategic Trade Sales have been the leading exit route for Africa PE, and continue to be pursued by Fund Managers as the most viable option



Source: Kuramo analysis, representing 101 successfully realized deals done between 1995 and 2012.

The Case for Investing in Africa

Key Takeaways

- **Improving African Landscape** – Political stability, Governance, Macro-economic background and regional cooperation
- **Demographics** – young people with more disposable income
- **SME Focus** – small companies looking for growth capital
- **Attractive Sectors** – FMCG, Infrastructure, Agriculture, Technology, Financial Services and Telecoms
- **Local Network** – critical to avoid pitfalls
- **Strategic Partner** – integrity of local partner is a critical success factor
- **Valuations** – very attractive valuations in public markets
- **Low PE Penetration** – less competition from global players
- **Attractive risk-adjusted returns** – one of the few regions in the world for very attractive risk-adjusted returns

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