

Executive summary

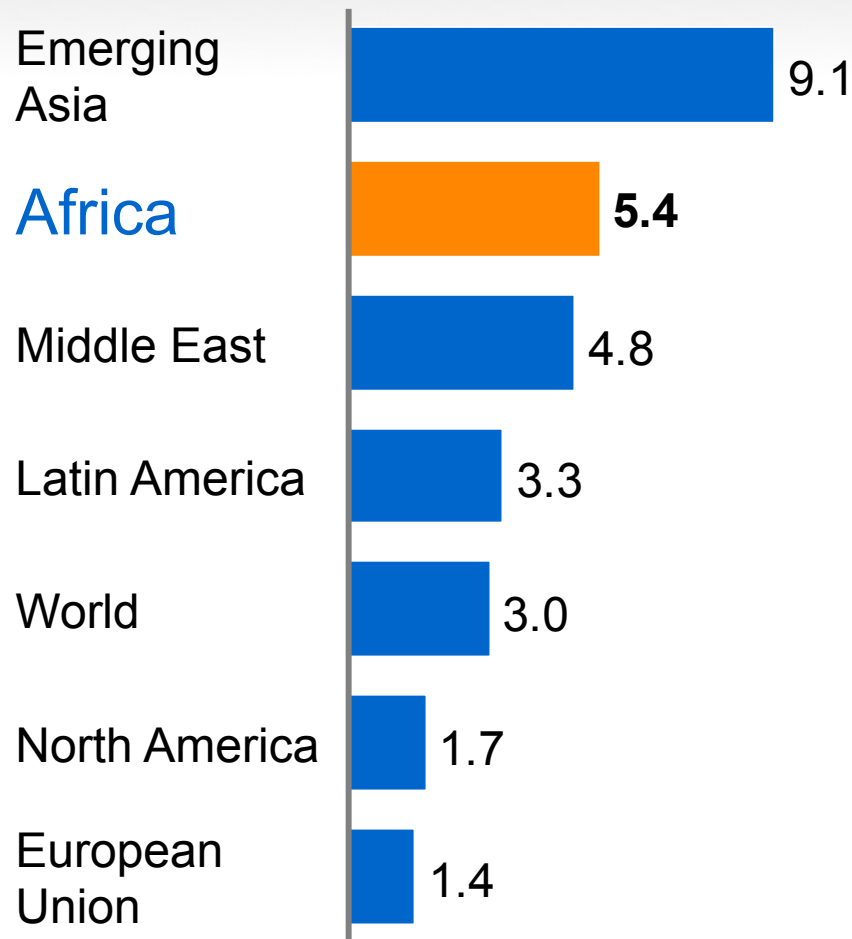
- 1 The Africa growth story is still positive, but more nuanced – long term fundamentals remain strong
- 2 The business opportunity is large – over \$4T across B2C and B2B
- 3 Manufacturing is an opportunity that could double by 2025
- 4 Africa's largest 700 companies grow faster and are more profitable than global peers, but are too few and too small
- 5 6+1 imperatives for governments to sustain and accelerate the momentum



1 Africa has experienced a slowdown in growth over the past 5 years, in line with other emerging economies

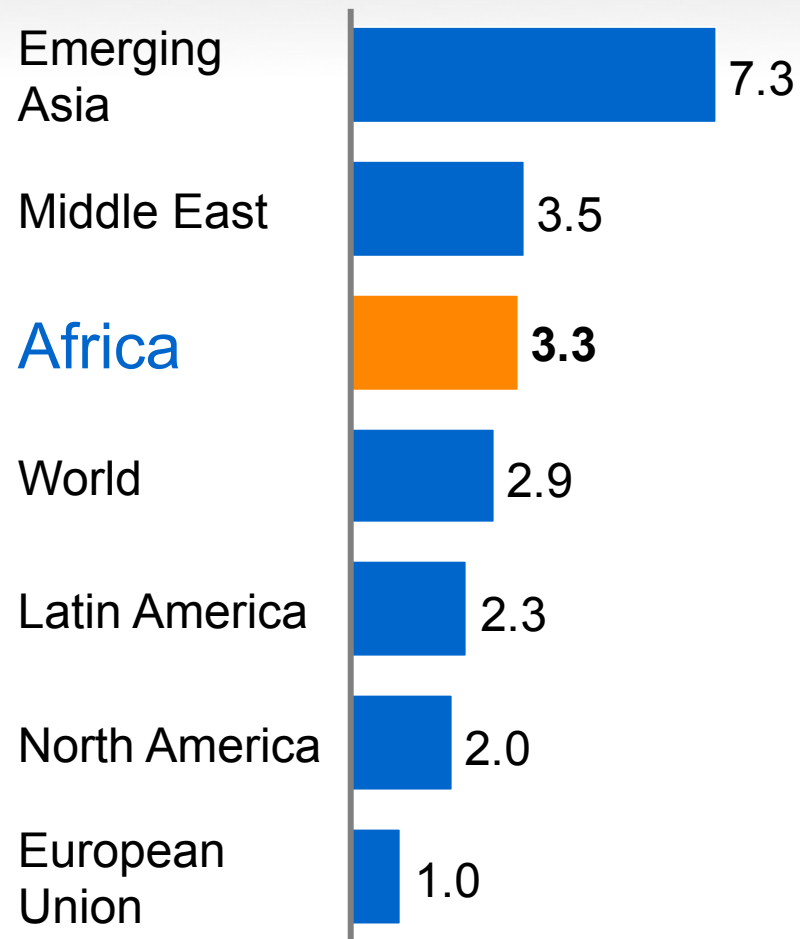
Measured real GDP growth, 2000–10

Compound annual growth rate, %



Measured real GDP growth, 2010–15

Compound annual growth rate, %



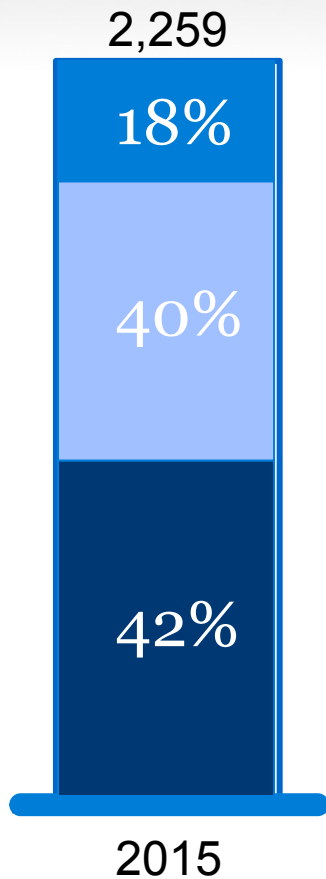
1 The decline in growth was driven by slow growth among oil exporters and countries involved in the Arab spring

African GDP, 2015¹
\$ billion, 2015 prices; %

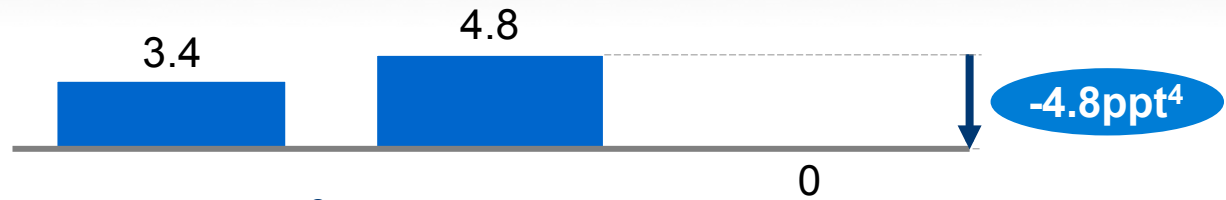
Real annual GDP growth rate
Compound annual growth rate, %

x

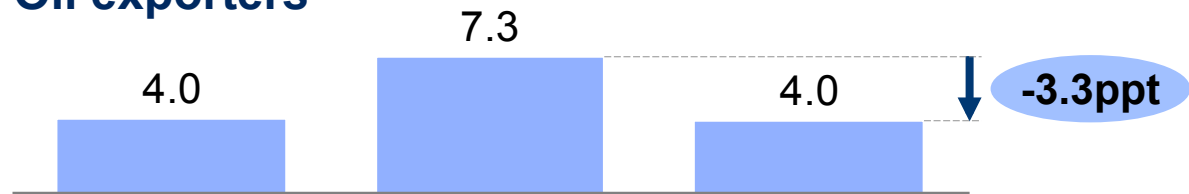
Total African GDP growth rate



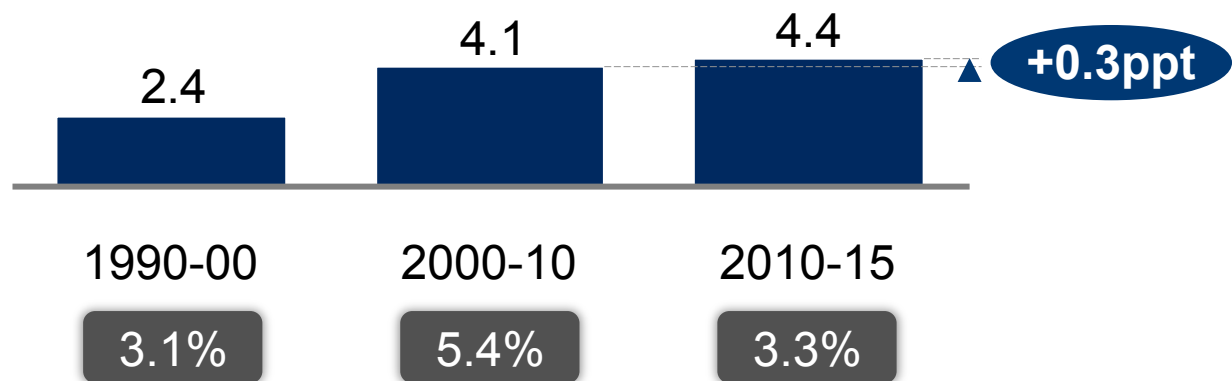
Arab spring countries³



Oil exporters²



Rest of Africa



1990-00

2000-10

2010-15

3.1%

5.4%

3.3%

¹ Includes GDP data for 53 African countries
³ Includes Tunisia, Egypt and Libya

² Algeria, Angola, Chad, Democratic Republic of Congo, Equatorial Guinea, Gabon, Nigeria, and Sudan
⁴ ppt is an abbreviation for percentage points

1 We believe Africa's long-term growth prospects are strong, powered by four factors

Growing workforce

A



- Working age population **world's largest** by 2034 at 1.1bn
- **Stable jobs** growing faster than labor force

Rapid urbanisation

B



- **Urbanizing faster than other regions:** ~190 million moving into cities by 2025
- Cities have **2.5x higher productivity** than rural areas



C

Technology

- Internet **could constitute 10%** of GDP by 2025
- Technology creating **opportunities to leapfrog** e.g.,
 - Banking
 - Education
 - Electricity
 - Retail/wholesale



D

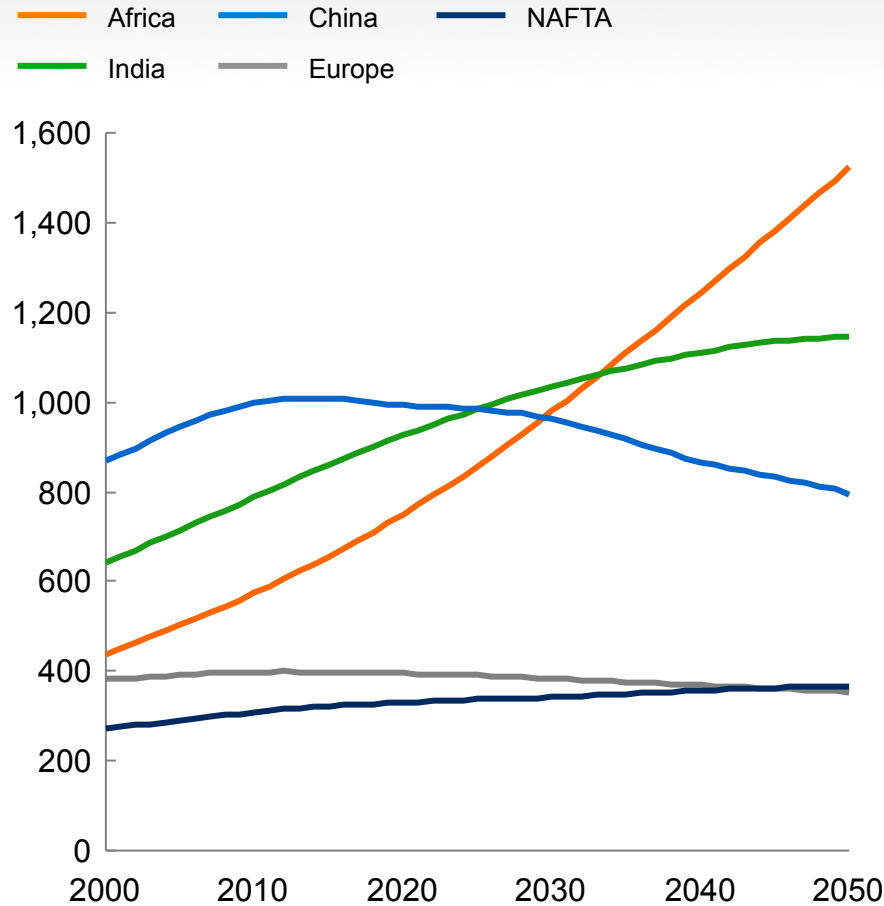
Natural resource endowments

- Africa has a **significant share of global resource reserves**
- Reserves can **competitively meet continued global demand** for these resources

Africa is expected to have a larger working-age population than either China or India by 2034

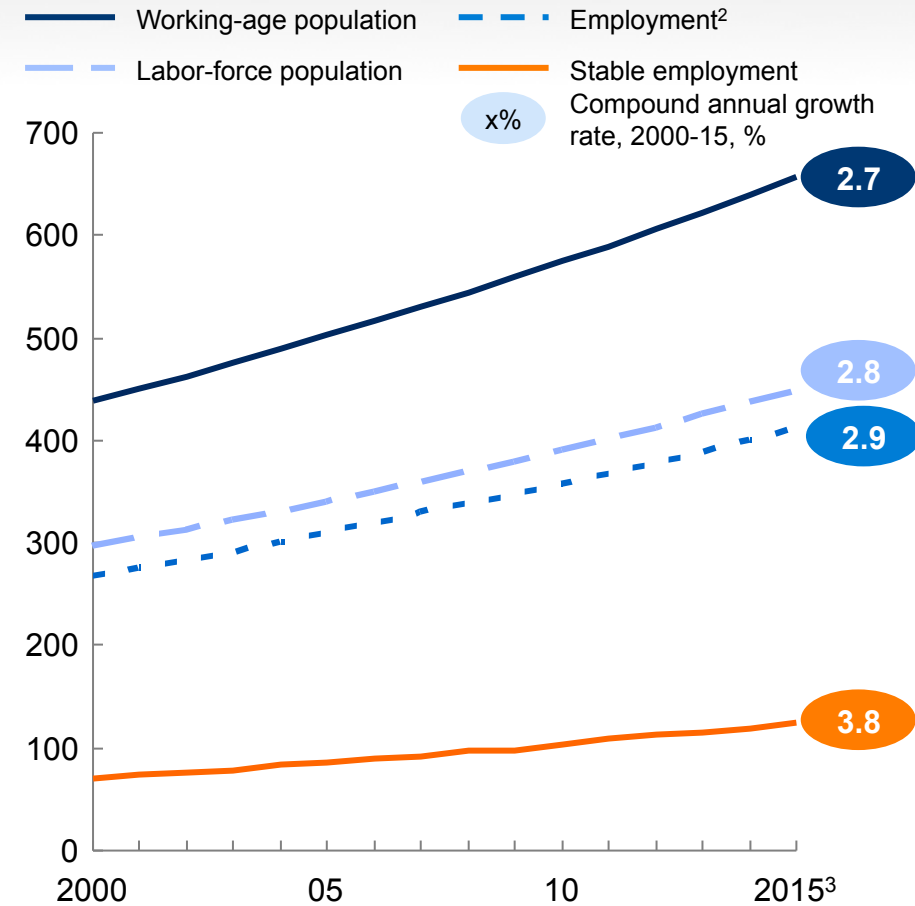
Working-age population vs. largest countries¹

Million people aged 15-64



Working-age population employment status breakdown

Million adults



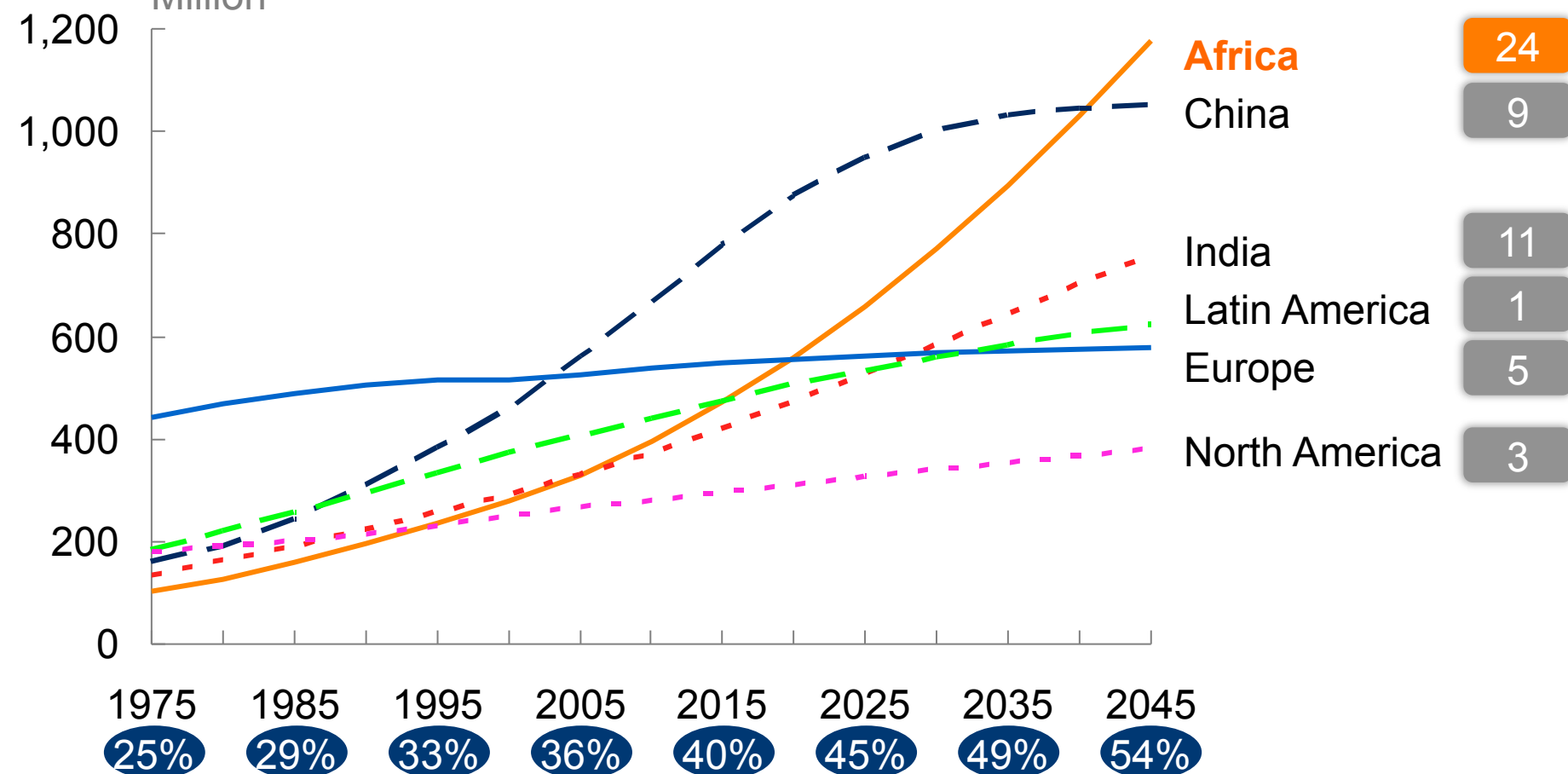
- 1 Working-age population = individuals aged 15-64.
- 2 Includes vulnerable employment and stable employment.
- 3 International Labour Organization estimates.

B Africa is urbanising faster than any other region in the world, adding 24mn people to cities each year until 2045

● Africa urbanized, %
■ Million more people living in urban regions per year, 2015-45

Size of the urbanised¹ population

Million



¹ Population living in urban areas. UN forecasts adjusted in 2014



Digital connectivity likely to increase fourfold

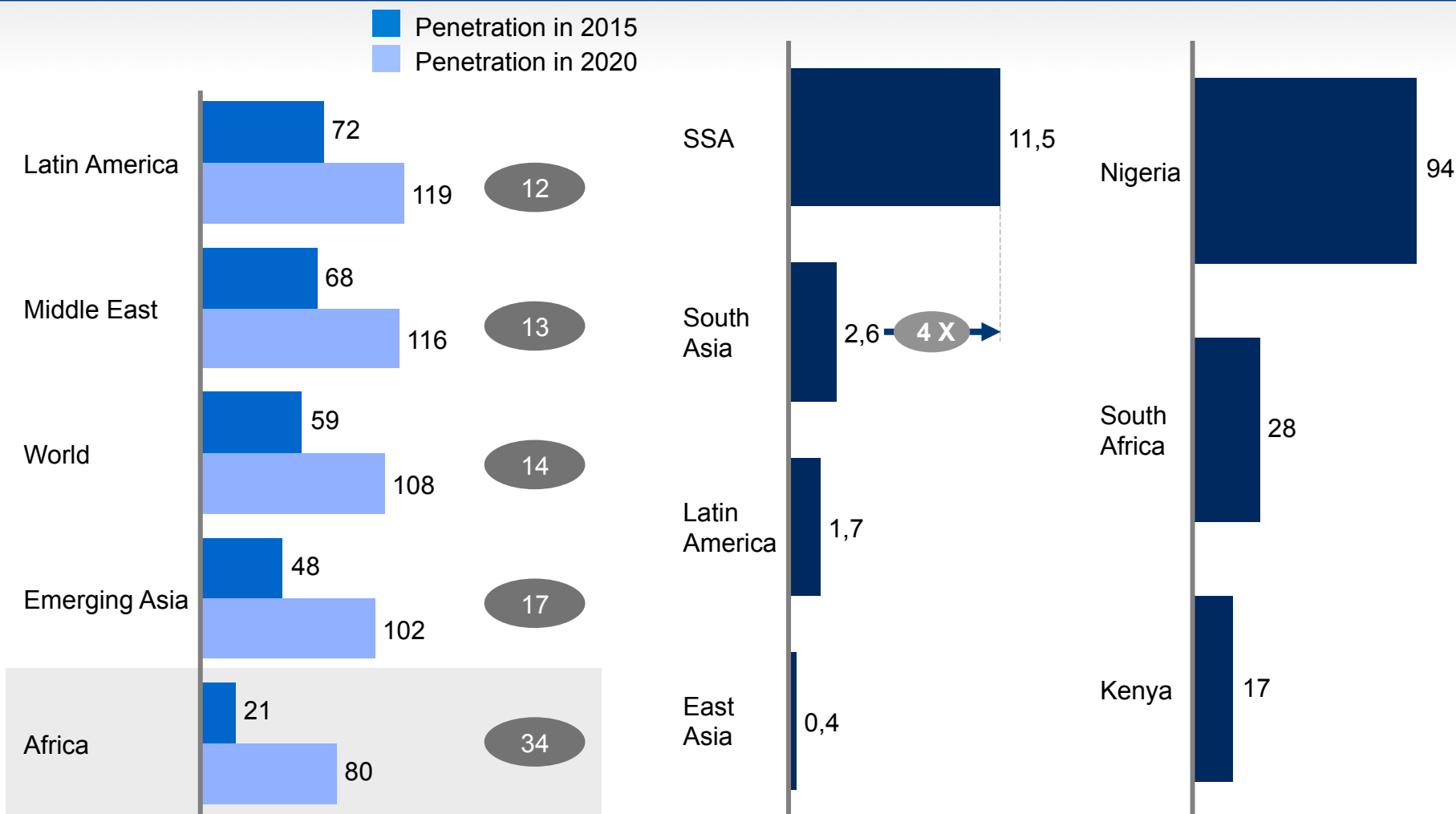
Broadband Penetration

%

CAGR
2015-20
%

Mobile money: Africa is growing
5x faster than the next region
%

Ecommerce: experiencing
double digit growth
%, 2010-2015



2 Africa presents a market for B2C and B2B consumption worth ~\$4 trillion in 2015

Consumer and business spending in 2015

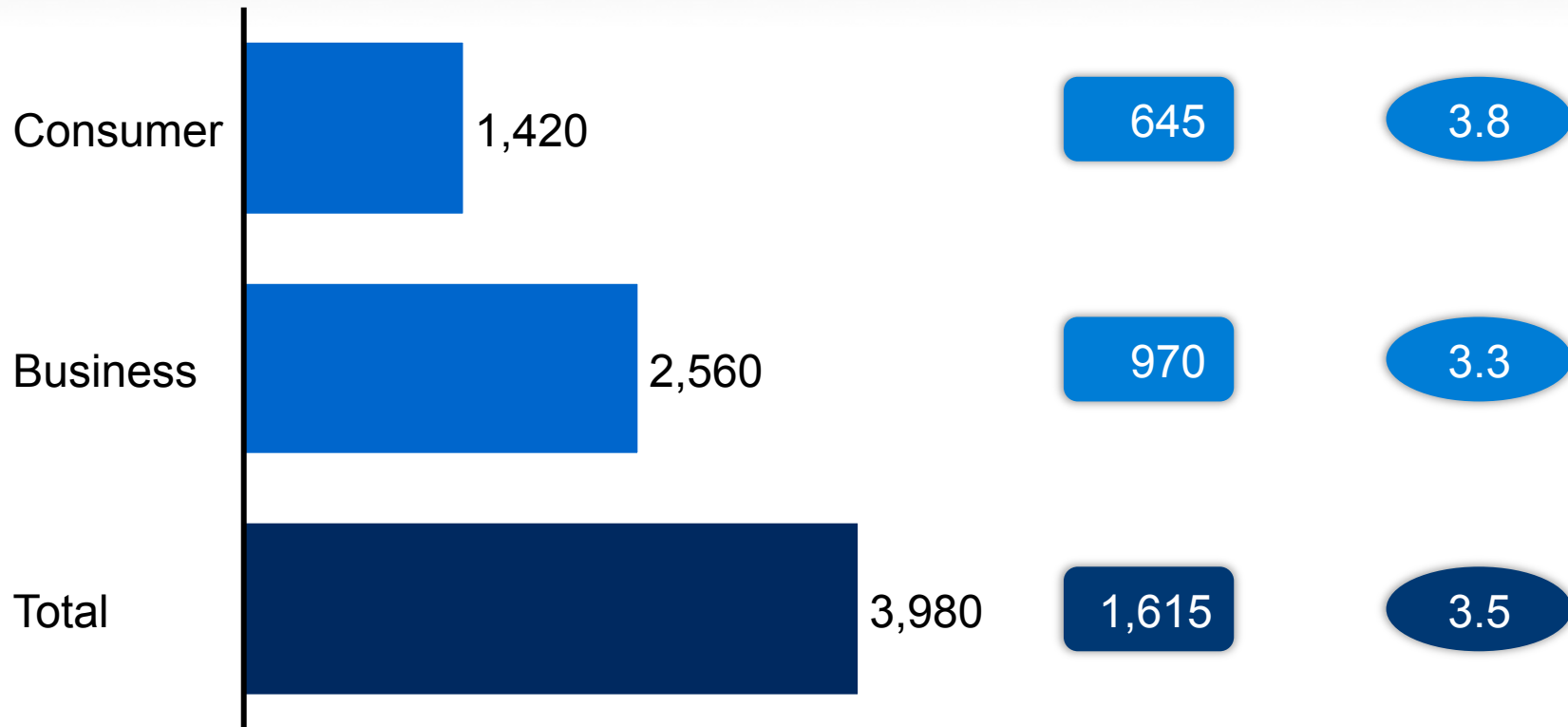
\$ billion (2015 prices)

**Growth
2015-25**

\$ billion

**Growth rate
2015-25**

%

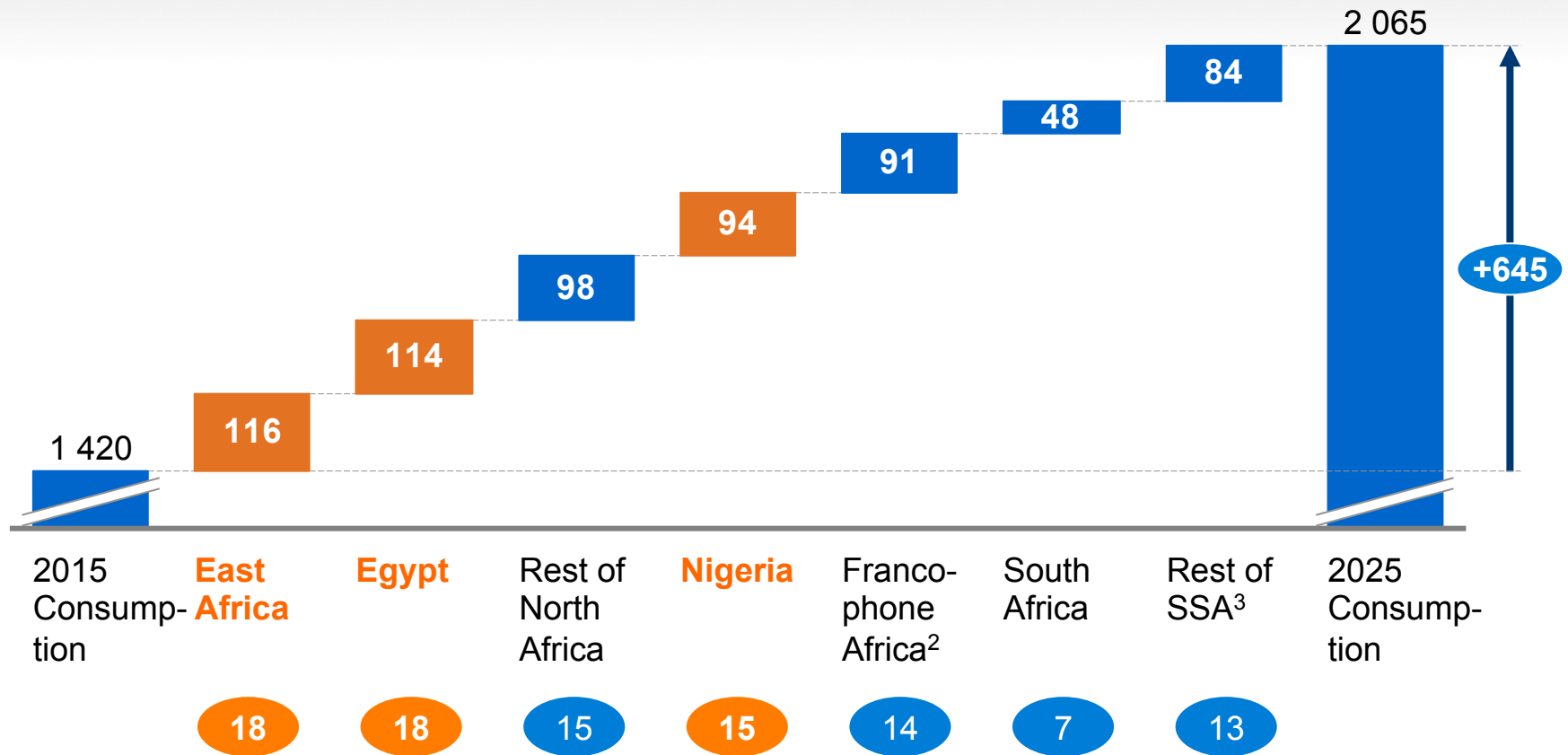


2 Household consumption will grow by \$645 billion by 2025, half coming from East Africa, Egypt, and Nigeria

% Share of consumption growth from 2015 to 2025

Country contribution to growth in household consumption 2015-2025¹

\$ billion , real 2015 prices



¹ Breakdown is representative of 39 countries in Africa

² Includes 14 countries in central and western Africa, excludes North Africa

³ SSA is short for sub Saharan Africa

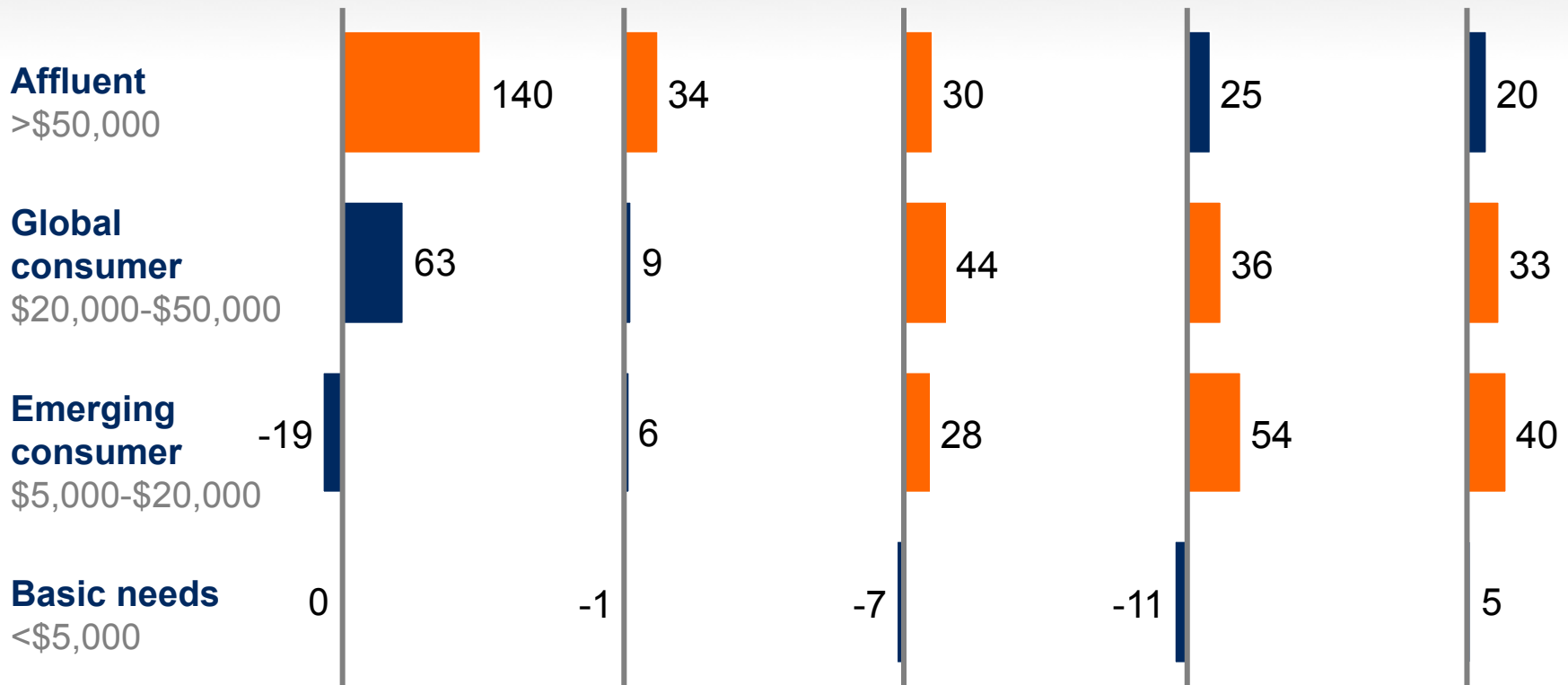
2 Different segments power growth in each consumer spending pool

Consumption growth by household income-segment for largest 15 African markets¹

\$ billion, 2015-25

■ Segment(s) driving growth
 ■ Other segments

North Africa²
South Africa
Nigeria
East Africa³
West and Central Africa⁴



¹ These 15 largest African markets generated 89 percent of 2015 demand and are responsible for 82 percent of consumption growth between 2015 and 2025.

² North Africa includes Algeria, Egypt, Morocco, and Tunisia. Egypt will account for 62 percent of the region's growth in consumption.

³ East Africa includes Kenya, Ethiopia, Tanzania, and Sudan

⁴ We focus on five major markets in West and Central Africa including Angola, Cameroon, Côte d'Ivoire, Democratic Republic of Congo, and Ghana.

2 Companies spend ~\$2.6 trillion p.a.; South Africa, Nigeria and Egypt will drive growth in spending

Company spending by country¹

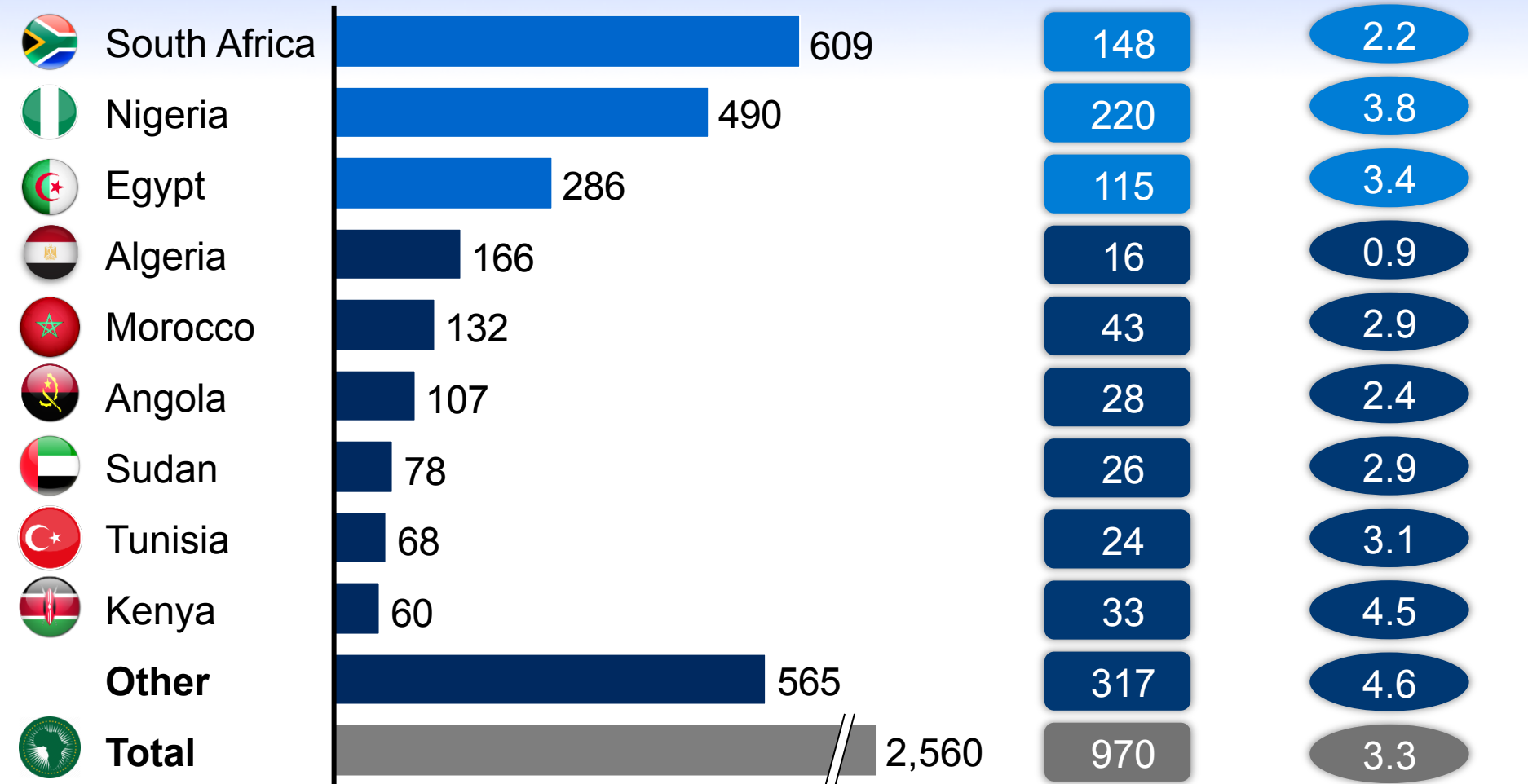
\$ billion in 2015

Growth
2015-25

\$ billion

Growth rate
2015-25

%



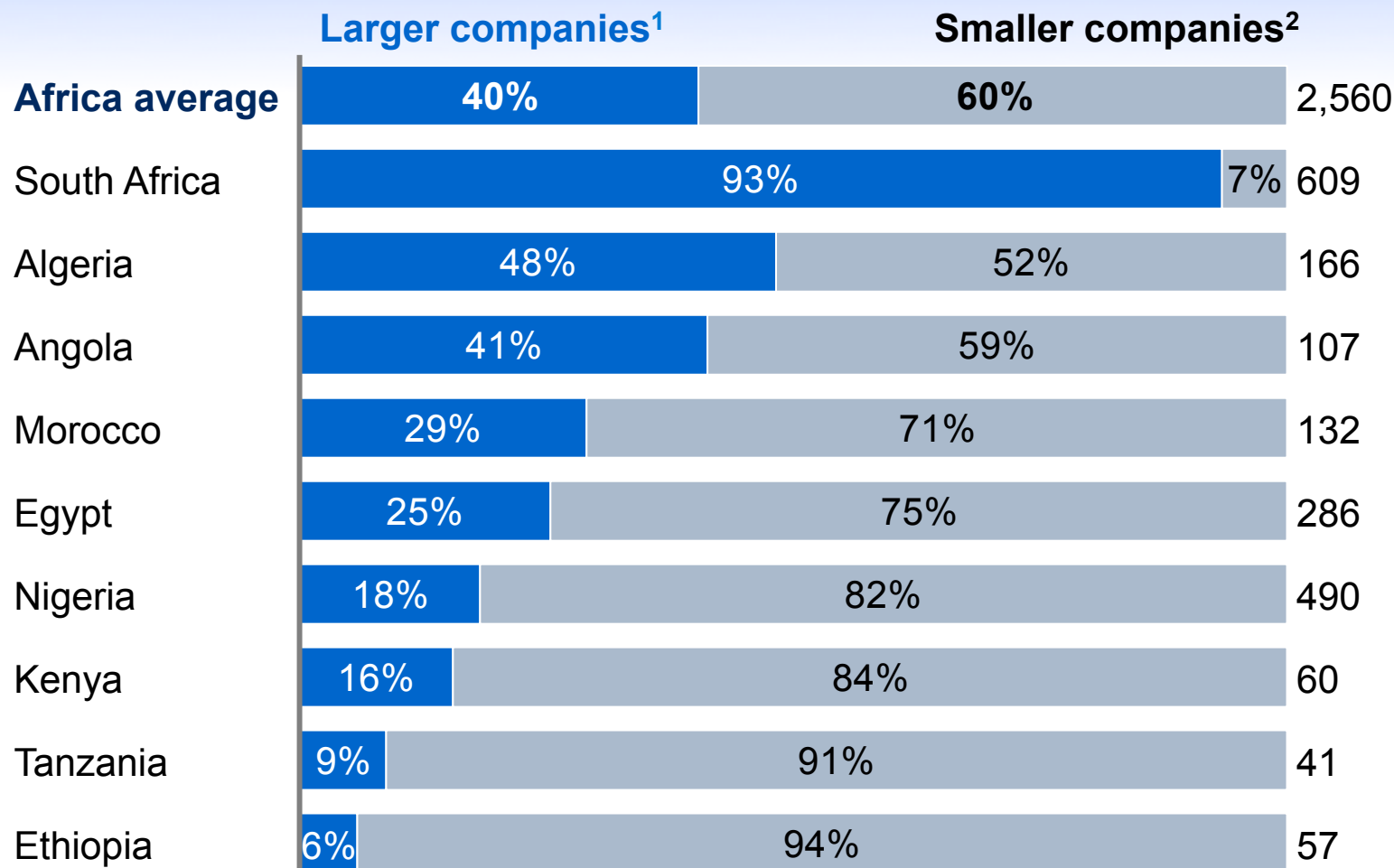
¹ Spending excludes salaries (22 percent), but includes spending on materials, services, and capital expenditure.

SOURCE: MGI African companies database; CIQ database; IHS; WCIS; BMI; Ovum; Yankee; McKinsey Purchasing and Supply Management practice; McKinsey BMI practice; McKinsey Oil and Gas practice; McKinsey Global Banking Pools; McKinsey Global Institute analysis

2 Smaller companies will account for most business spending with the exception of those in South Africa

Share of company spending by company scale, 2015

\$ billion, %



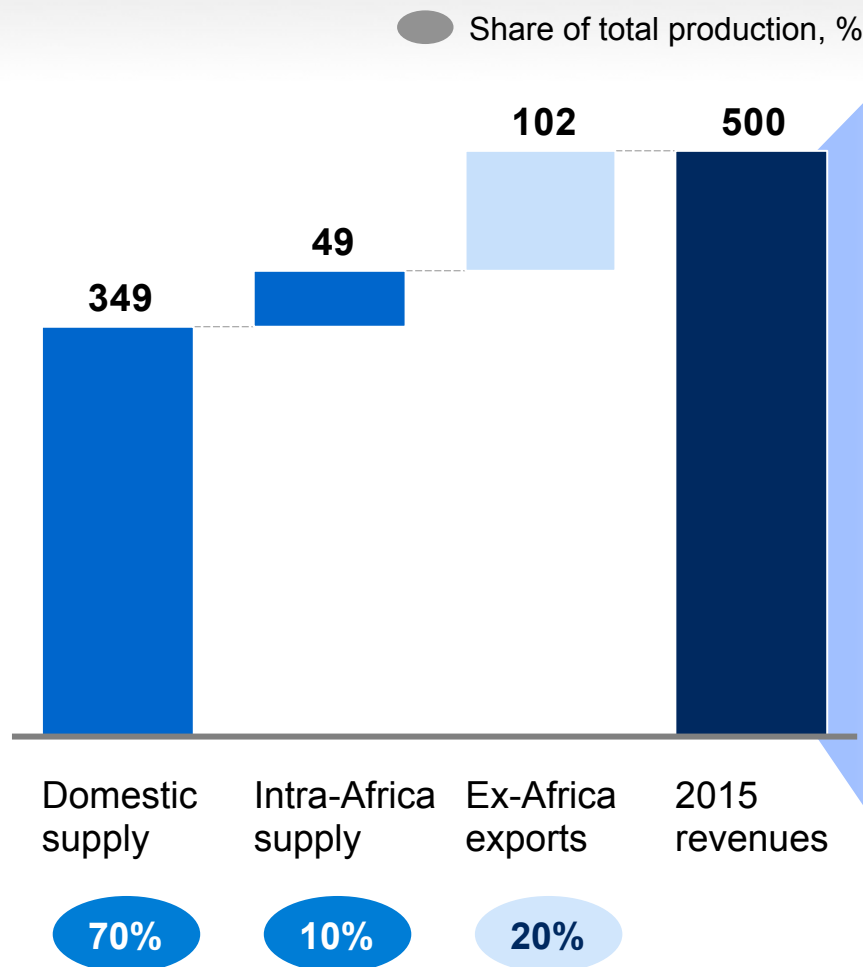
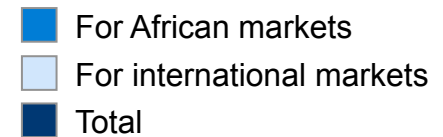
¹ African companies with revenues >\$500 million

² African companies with revenues <\$500 million

3 Africa manufactures \$500bn of products, of which eighty percent are for African markets

Africa's production of manufacturing goods, 2015

\$ billion (% of output)



Breakdown of total output in 2015

Regional processing
e.g., food, beverages

188

Global innovation for local markets
e.g., chemicals, auto

137

Resource intensive
e.g., cement, refined petroleum

110

Labour intensive
e.g., apparel, footwear

55

Global technologies
e.g., medical devices

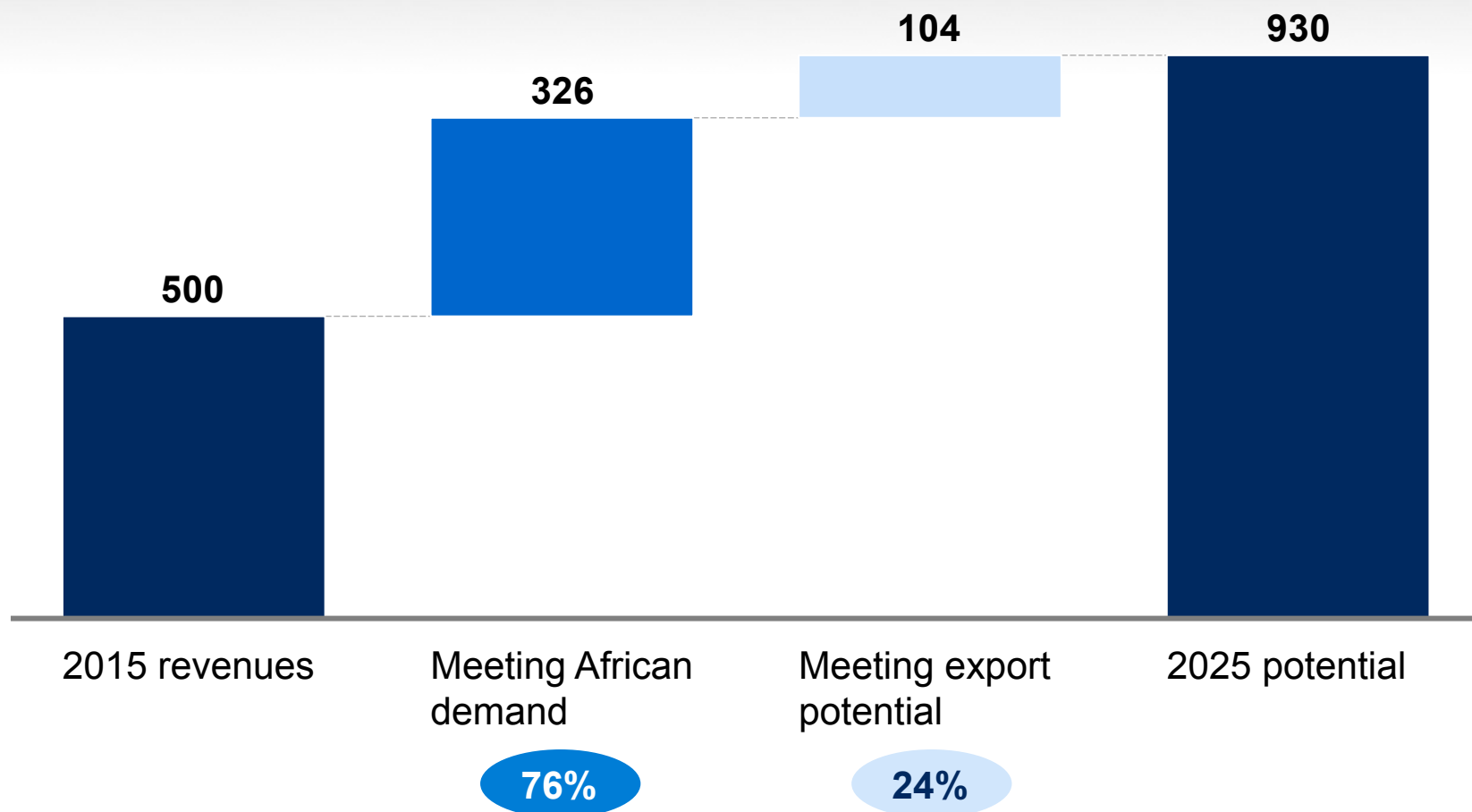
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3 75% of this growth opportunity would come from meeting domestic demand

Potential revenue from African manufactured goods

\$ billions, 2015 real (% of output)

- For international markets
- For African markets
- Total
- Share of total production, %

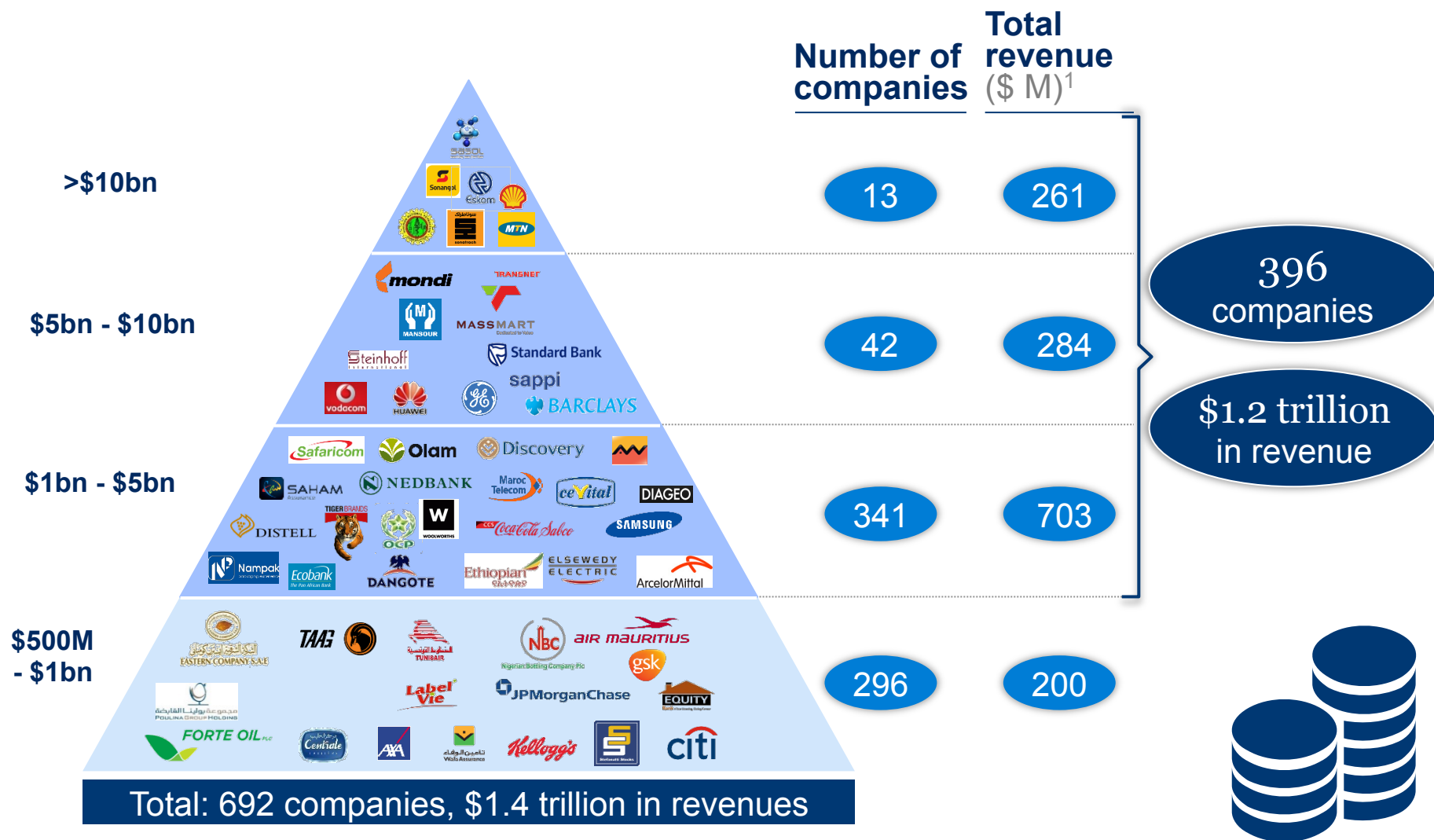


NOTE Numbers may not add up due to rounding

4

Around 700 companies in Africa account for \$1.4 trillion in revenue

Breakdown of companies by revenue size



¹ 2014 or most recent data

SOURCE: MGI African companies database; McKinsey Global Institute analysis

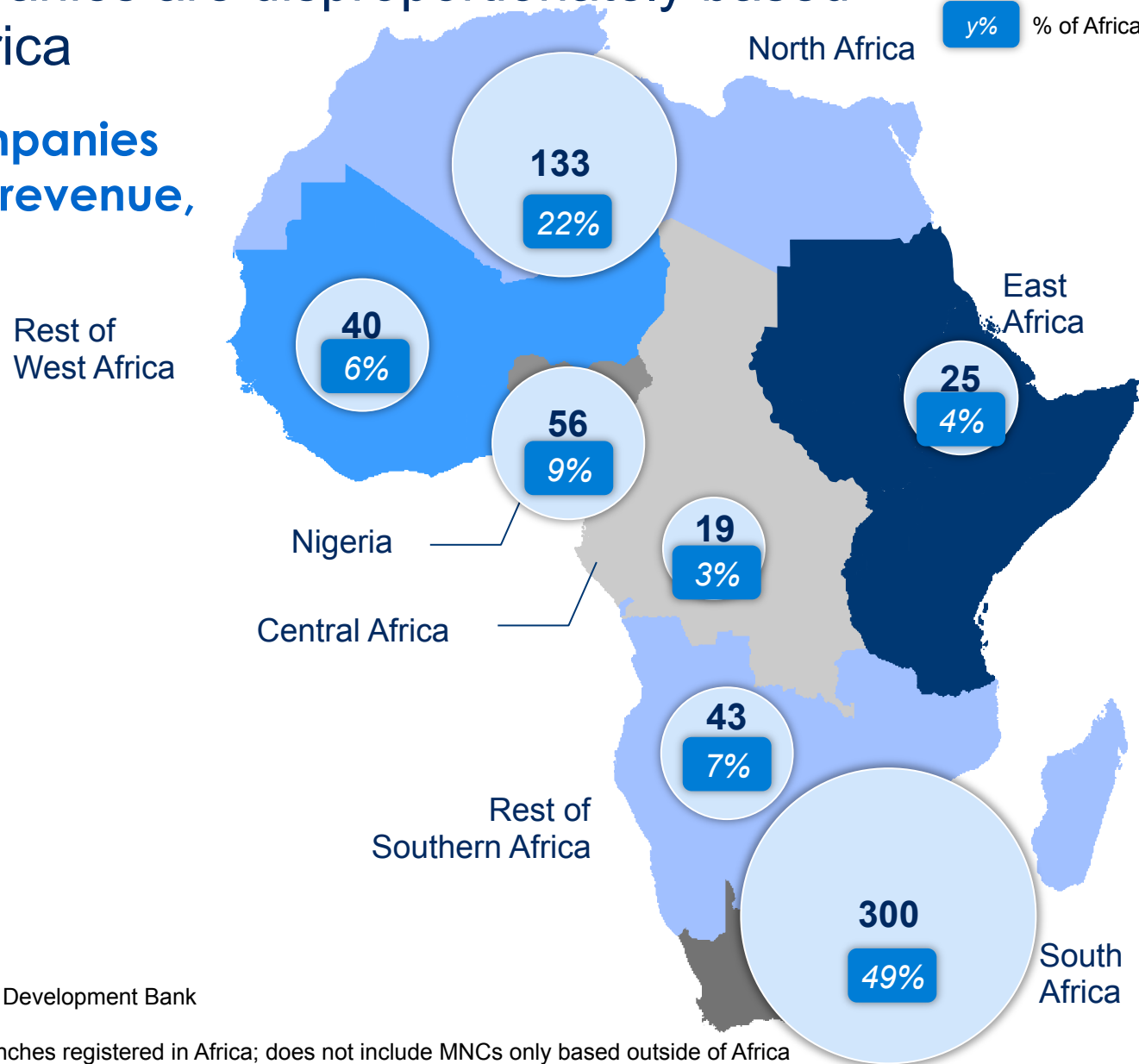
McKinsey & Company | 15

4 Large companies are disproportionately based in South Africa

x # companies
y% % of Africa's total

Number of companies with >\$500M in revenue, by region¹

2014²



1 Region definition from the African Development Bank

2 2014 or most recent data

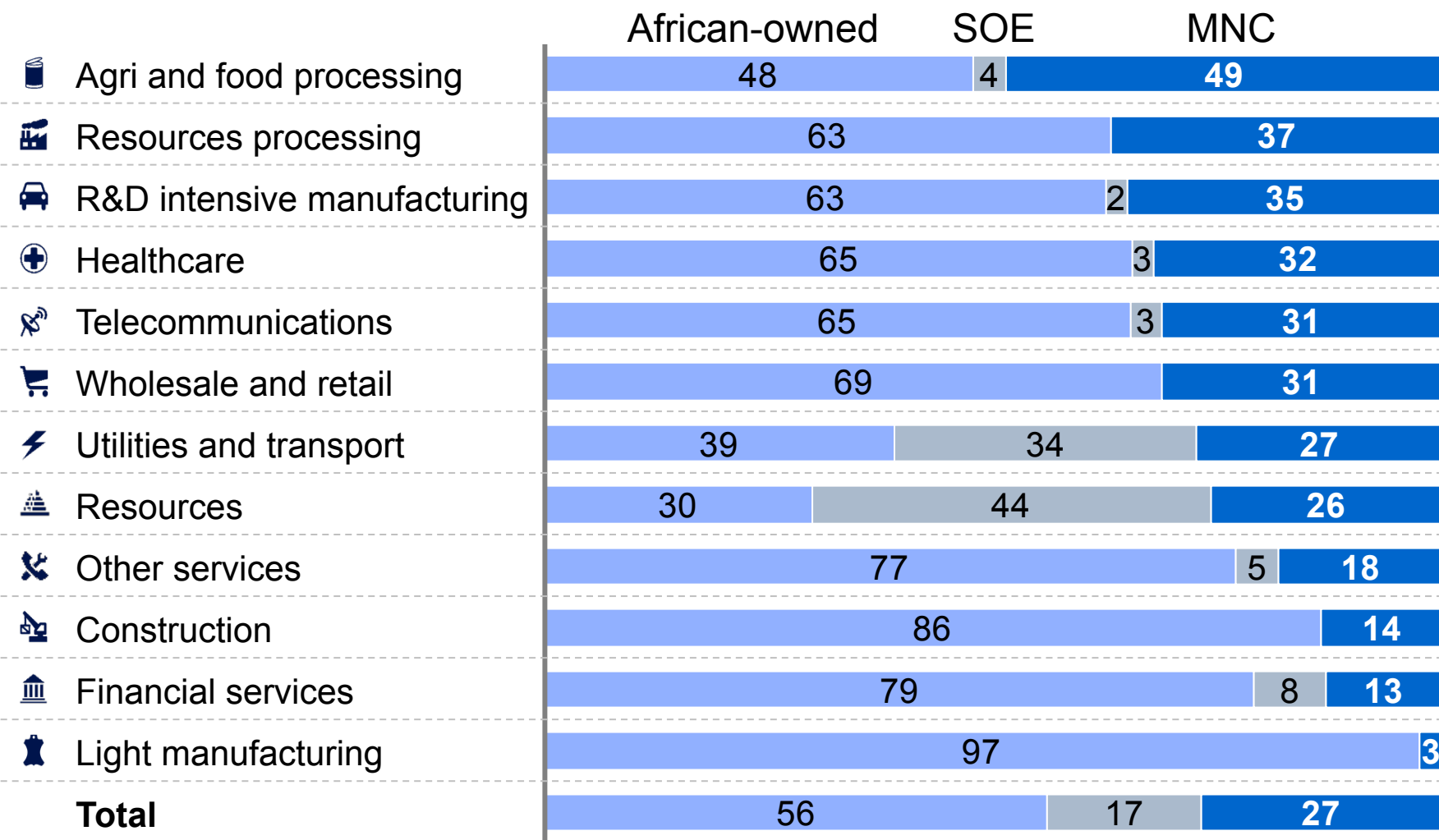
Note: includes MNCs with local branches registered in Africa; does not include MNCs only based outside of Africa

4

The company landscape is mostly local companies, followed by MNCs and SOEs

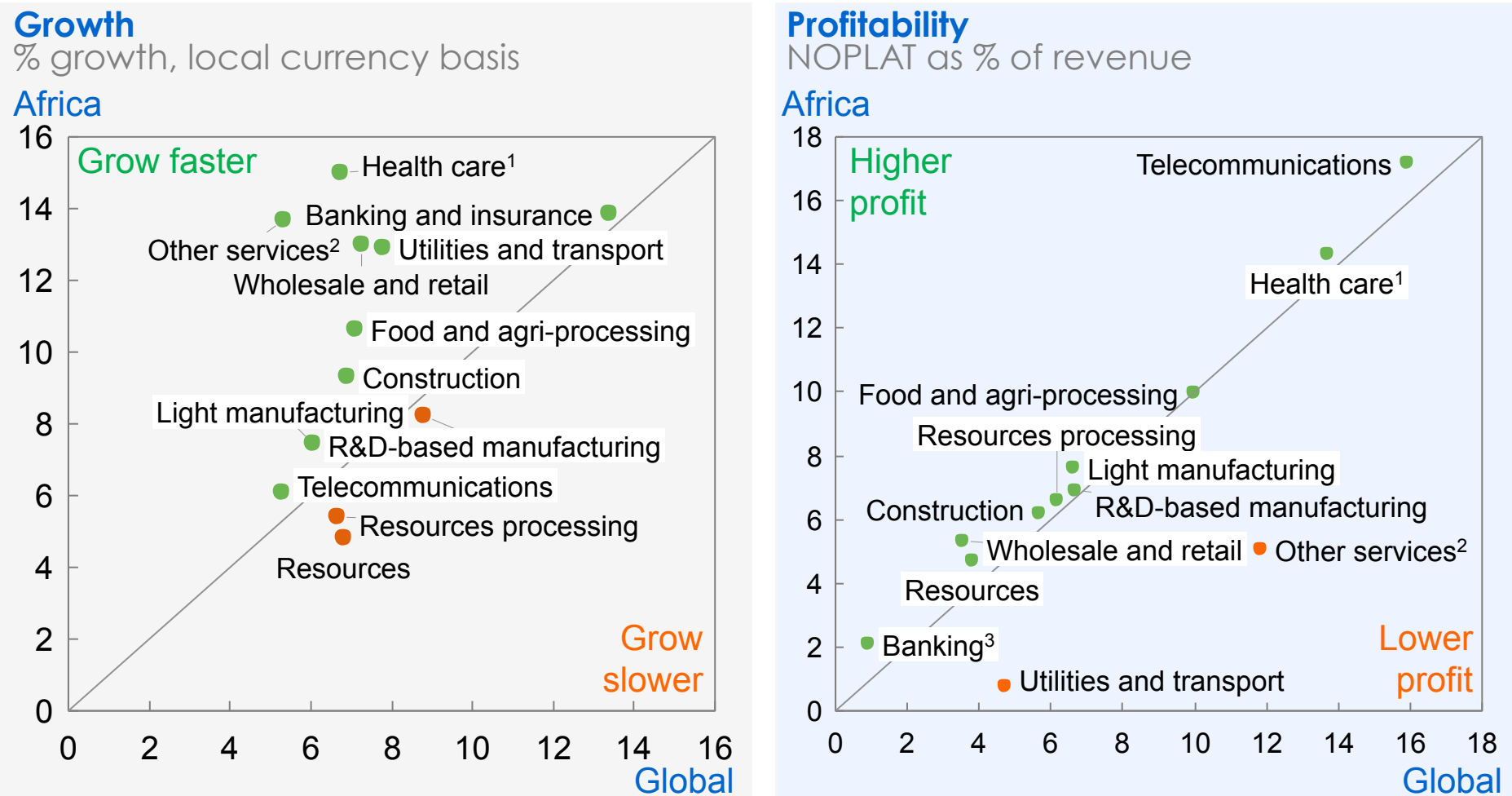
Revenue breakdown by sector and type of company

%; Total=~\$1.4 trillion, 2014 or most recent year



4 Companies in Africa tend to grow faster and are more profitable than their global peers

African companies vs. rest of world by sector, from 2008-2014

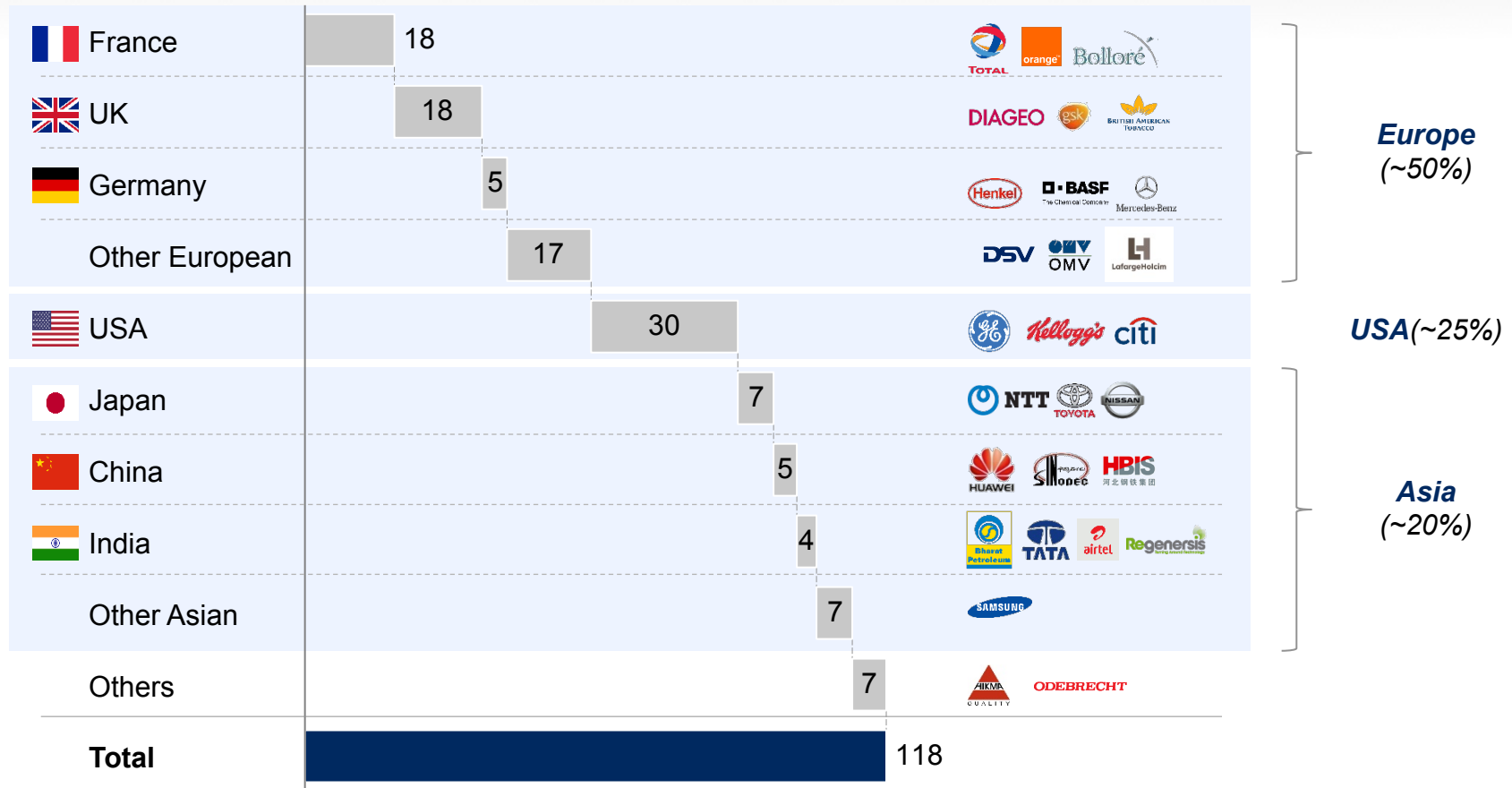


1 n=4 for healthcare, due to sector size and data availability
2 Other services includes among others IT, media, marketing
3 Profitability for banking measured by return on assets (%); healthcare and light manufacturing not shown due to data availability

4 ~25% of large MNCs in Africa are from North America; ~50% are from Europe

Origin of MNCs making over \$500M in Africa

Examples



Note: origin defined by location of headquarters

4 Lessons to succeed in Africa

A Pick your geography



- **Prioritize your home market if large enough:** 48% of large companies analysed¹ were based in one of Africa's top 10 markets
- **Expand to new markets:** 52% of companies analysed¹ did this; over half of MNCs are pan African, local companies grow regionally

B Adopt a long term perspective



- Adopt a **long term perspective** to succeed
 - most MNCs have been present for over 15 years, earning more than twice the revenue of younger MNCs

C Integrate what would usually be outsourced



- **Integrate more functions** because of poorly developed supply chains e.g.,
 - An industrial company owns a fleet of ~12,000 distribution trucks
 - Telecoms company built its own power source for mobile towers

D Look for opportunity in white spaces



- Target **white spaces** in sectors with faster growth and higher profitability than the global average in that sector
 - healthcare, retail, agri-processing, construction, financial services
- Target **new market segments** e.g., bottom of the pyramid, through innovation; 30% of large companies¹ do this

E Invest in building and retaining talent



- Develop management teams through **localization, training and integration of the management** force from new acquisitions; bringing in expat executives can cost 3X more than the local talent
- Develop **vocational skills** in entry-level jobs; Africa needs to increase trainees from 4 million p.a. to 33 million p.a.

¹ From 100 company sample with average or better growth or profitability from McKinsey's African companies database; all >\$500million in revenues

5 6+1 imperatives for governments to sustain and accelerate the momentum

Mobilise domestic resources



- Increase tax collection in Africa from \$300bn to ~\$420-600bn
- Increase savings by \$55bn pa through life insurance and state pension funds

Aggressively diversify economies



- Create an enabling business environment
- Shape a diversification strategy e.g., to grow government revenue
- Rally investment to new sectors to increase FDI by 50 percent by 2025

Accelerate infrastructure development



- Double annual spend to \$150bn by 2025 with a focus on power and transportation
- Increase use of PPPs – from 4.5% of capital spent to 9% or greater

Deepen regional integration



- Further enable intra-regional trade to build larger markets
- Drive closer integration of regional capital markets
- Simplify movement of business people between countries

Create tomorrow's talent



- Increase vocational training from 8% of African secondary school grads to ~50% by 2025

Ensure healthy urbanisation



- Improve planning, land registration, and logistics
- Prepare for 15 cities with 5mn plus by 2025
- Increase housing for the 190M new urban dwellers by 2025

Transform public leadership



- Strengthen public sector capabilities to design, plan and deliver structural reforms
- Improve overall business environment by taking simple, effective measures to simplify permitting, registration, eliminate corruption, etc.