I&M Burbidge Capital

OCTOBER 2021

PRIVATE EQUITY EXITS IN EAST AFRICA

Editorial Team

EDWARD BURBIDGE, **CFA**
Chief Executive Officer

KEVIN KURIA,
Associate Vice President

VIRAJ SHAH,
Corporate Finance Senior Analyst

About Us

I&M Burbidge Capital Limited is a corporate finance firm licensed by the Capital Markets Authority creating long term advisory relationships & solutions across Eastern Africa.

Advisory Services:

Originating and Structuring Equity and Debt Capital Raising, IPOs, M & A Transactions, Strategic Options Advisory, PE Advisory and Independent Research Services.

I&M Burbidge Capital

CONTENTS

1 Foreword

Foreword

Edward Burbidge, CEO

Welcome to the latest I&M Burbidge Capital Ad Hoc publication, which explores the historic, current and future trends in private equity exit transactions in the Eastern Africa region.

Through our internal database, which forms the basis of our I&M Burbidge Capital monthly and annual Eastern Africa Financial Reviews, we have data on the deals that have taken place in the region since 2013. This, together with the insights and analysis of our senior team, forms the starting point of this publication.

In addition to our data and analysis we have included interviews with senior PE Fund managers at 3 leading and highly active private equity firms and DFIs. My appreciation goes to Michael Turner of Actis, Sithembumenzi Vuma of CDC and Faisal Jiwa of AfricInvest for adding valuable insights and experience from years of presiding over exits in our market.

Since 2013 the trend of primary private equity investments (money-in deals) has been consistently increasing and we would expect exits to follow the same pattern, given that many of the PE players have a fixed investment horizon before requiring liquidity. Initially this was the case, however we have more recently witnessed a sharp slowdown in exit activity, as political issues; governance shocks; and then Covid-19 have created major hurdles to successfully executing exits. However we have seen a pick-up in exits again (albeit over a short period) in the first half of 2021, and so we feel it is a particularly topical moment to explore the likelihood of this trend continuing and, more generally what the future may hold for exits in Eastern Africa.

We finish with a few tips from our senior team on key transaction considerations for an exit process.

I very much hope that you enjoy, and gain useful insights from this publication.

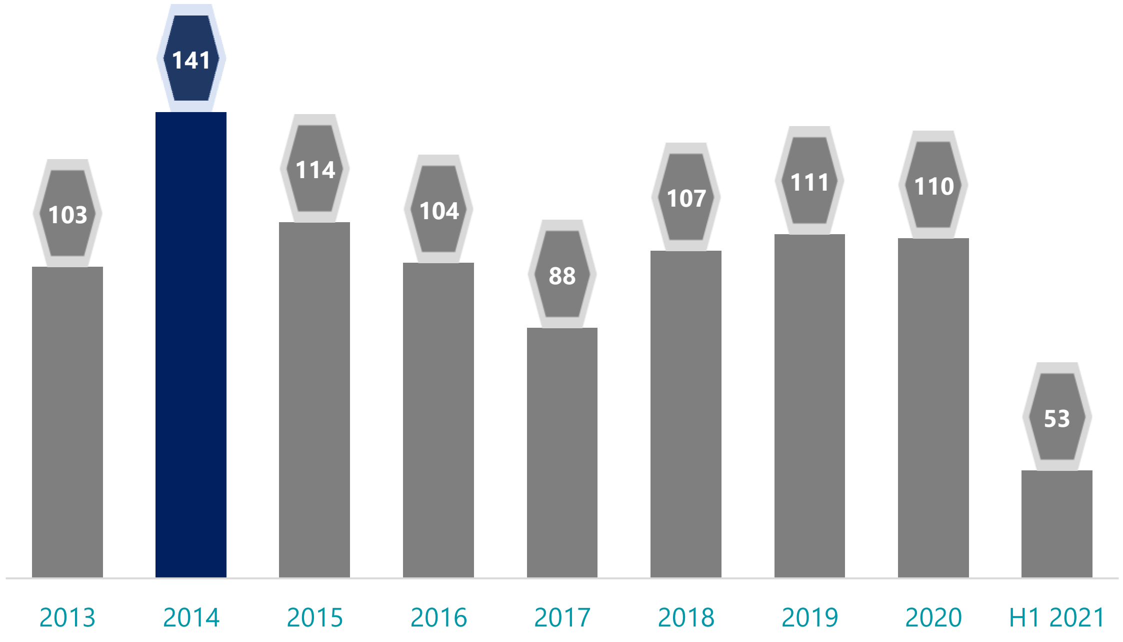
Edward Burbidge, CFA
Chief Executive Officer
I&M Burbidge Capital Limited

2 PE Exits Data & Analysis

Background – Corporate Deals Landscape in East Africa

2020 was a year of unprecedented challenges, primarily from the Coronavirus pandemic which wreaked havoc across all global markets and a majority of the key sectors. The East African capital markets (public and private) were also significantly affected with travel restrictions and poor performance dampening transaction prospects. However, as is detailed in the chart beside, in the end 110 corporate finance deals were disclosed in 2020, only one deal less than in 2019. Save for 2014, where 141 deals were disclosed, and 2017, where only 88 deals were disclosed, corporate finance transactions have averaged close to 108 deals annually over the period. Currently in 2021, the disclosed deals are on track to achieve a similar total over the period.

Total Number of Disclosed Deals in East Africa (All Deal Types)



Private Equity Exits

Private equity exits are hugely topical in the private equity community in East Africa both for their complexity and elusiveness as displayed by the contrast in publically disclosed private equity primary (money-in) transactions as compared to private equity exits.

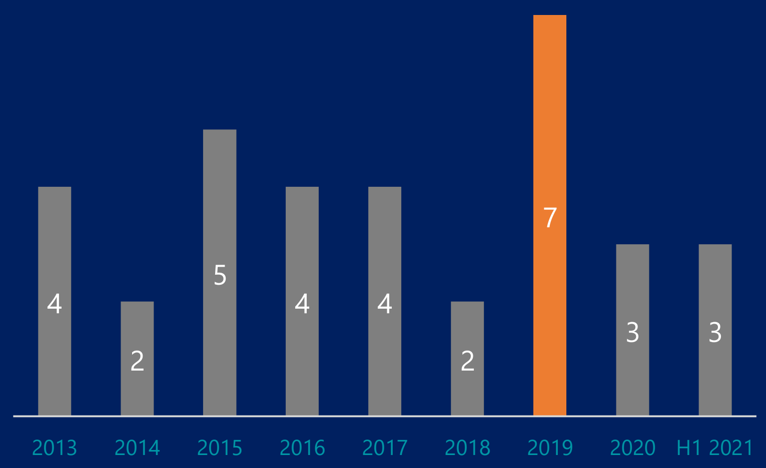
H1 2021 has already seen the number of PE exits match the total number of PE exits in 2020, with 3 exits disclosed, respectively. In 2020, the pace rapidly declined from a high of 7 disclosed exits in 2019. It is important to note, however, that anecdotal evidence from our market participation reveals that some private equity funds exited their holdings back to the original entrepreneurs without public disclosure. As such, exit figures may be higher. The challenge of successfully exiting a PE investment is partly attributable to the market complexities and political & economic challenges that have plagued East African countries in the last few years.

So far in H1 2021, none of the deals have a disclosed deal value. In 2020, only one deal had a disclosed deal size. 2015 and 2019 recorded 3 PE exits with a disclosed deal size value (the highest number of disclosed deals in East Africa between 2013 and H1 2021).

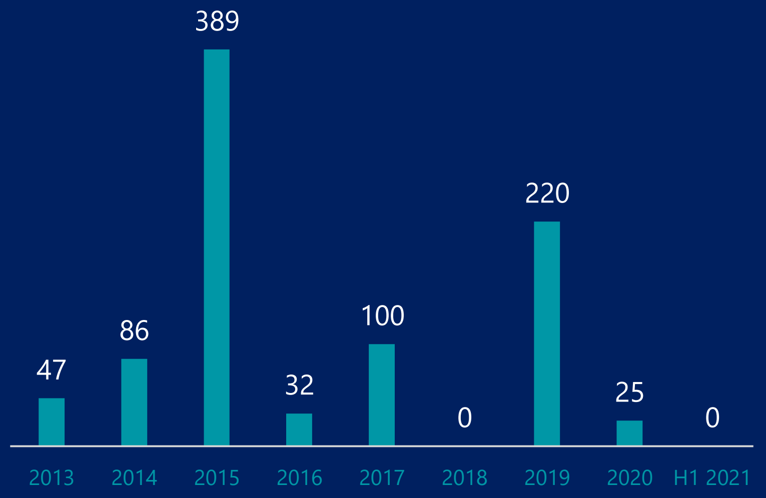
Of the disclosed PE exits in the captured timespan, the largest disclosed deal (in terms of deal value) was the USD 250.3 million exit by a group of PE firms including AfricInvest, Swedfund, Centum Holdings and The Abraaj Group during the takeover of UAP Holdings by global insurer Old Mutual in 2015.

Number of Disclosed PE Investment Deals in East Africa

Number of Disclosed PE Exit Deals in East Africa



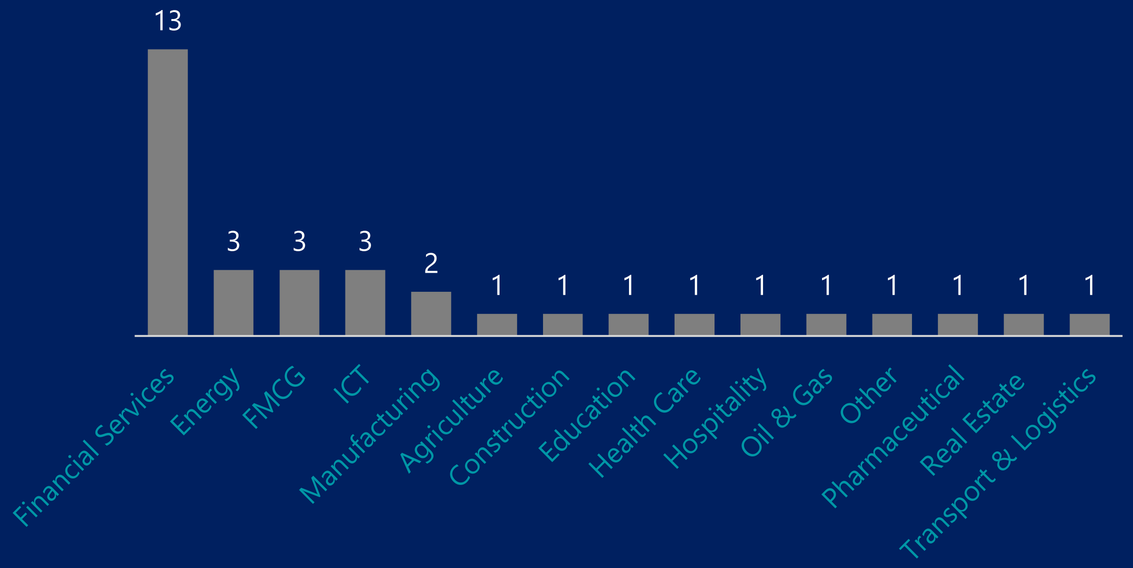
Disclosed PE Exit Deal Size in East Africa in USD m



PE Exits By Sector and Route

The Financial Services sector has traditionally accounted for the highest number of exits in the region with 38% of exits in the period between 2013 and H1 2021. The Energy, FMCG and IT sectors followed with 9% of exits each.

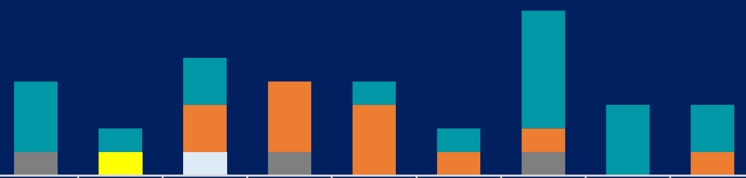
PE Exits by Sector



The preferred exit route was through an incoming trade player. Exits to trade players accounted for 18 deals in the period. PE exits to other PE investors was the second preferred route, with 11 deals.

The financial services sector also accounts for the most PE primary transactions over the period.

PE Exit by Route

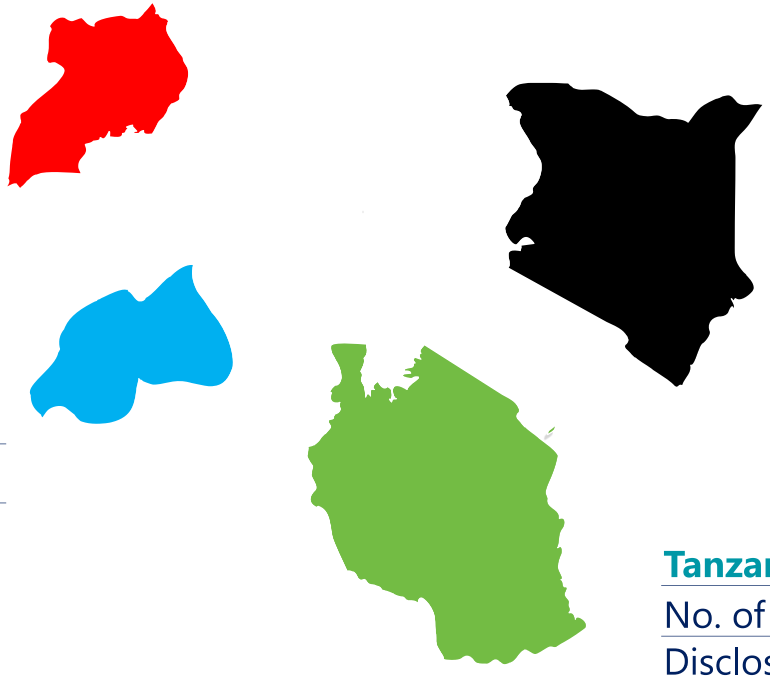


	2013	2014	2015	2016	2017	2018	2019	2020	H1 2021
Trade Player	3	1	2	0	1	1	5	3	2
PE Secondary Buyout	0	0	2	3	3	1	1	0	1
MBO	0	0	1	0	0	0	0	0	0
IPO	0	1	0	0	0	0	0	0	0
DFI	1	0	0	1	0	0	1	0	0

Disclosed Deal Size by Exit Route in USD m

PE Exits per Country

Uganda	Total
No. of Deals	9
Disclosed Deal Values (USD M)	86



Kenya	Total
No. of Deals	21
Disclosed Deal Values (USD M)	788

Rwanda	Total
No. of Deals	1
Disclosed Deal Values (USD M)	0

Tanzania	Total
No. of Deals	2
Disclosed Deal Values (USD M)	25

* There are no publically disclosed PE exits in Ethiopia as yet, although we are aware of a number in the pipeline.

3

Industry Insights from Leading Market Players

Industry Insights – Michael Turner, Actis

Based in Nairobi, Michael heads Actis in East Africa and has been instrumental in some of Actis' key successes on the continent including the launch of the Acacia Fund, the first private equity fund in Kenya, and investments in Flamingo, Banque Commerciale du Rwanda, Grain Bulk Handlers Limited and DFCU.

He is also responsible for Actis' agribusiness investments. More than two decades on, his philosophy remains the same: to build the businesses that deliver positive change to the markets they're part of, and the people they serve.

What are some of the techniques that you have employed to ensure alignment with promoters on exit and to ensure that they are a positive force in the exit transaction process?

1. **Distribution Structures/Provisions**: Implementing enhanced return structures that benefit the principals/promoters should exit exceed a certain hurdle. This ensures commitment from the promoters through the investment holding period with the promise of enhanced returns.

2. **ESOPs**: These are also beneficial in incentivizing management in achieving the business plan and provides sufficient upside on a successful exit.

With over 50 investments in Africa (and 200+ globally), Actis has run the gamut of investment structures and terms that enable its funds to realize value through exits. What are some of the key investee & investor protections, and other structures that Actis has found to be particularly useful in minimizing impediments to actualising exits?

Picking the Right Partner: Whilst this may not be qualified as a structural consideration, it's been a key factor in allowing us to realise value for our investors. Picking a wrong or misaligned partner may often prove detrimental in delivering an exit for the fund, and should be prioritized.

Capital Structure: We prefer to hold controlling stakes in our investments, allowing us to exert positive influence into the growth and strategy of the businesses. Whilst this is not the case with all our investments, various protections are put into place ensuring a strong working relationship with fellow shareholders and the investee management teams leveraging our decades of experience on the continent. From a risk perspective, there are also various benefits to being closer to the top of an investee's capital structure.

Shareholder Rights: Drag Along and Tag Along rights have also been helpful in structuring and actualizing exits. This has been particularly useful in significant minority investments, enhancing fund returns due to a control premium. Articulation of envisioned exit strategy and merits however need to be clear to the promoters/principals as negotiation of these rights tend to be contentious. Compromises on these rights – such as validity periods and rights of first refusals – can mitigate some of the potential concerns promoters have with these structures.

Industry Insights

Actis has also achieved a remarkable tally of exits that number more than 20. Some of these have been landmark transactions in East Africa such as the exits from Banque Commerciale du Rwanda, DFCU Bank and Umeme in Uganda. All of these have been achieved through diverse avenues including to trade players, other financial investors and via IPO, respectively. What are some of the key factors that influence Actis' choice of exit avenue?

Generally, the preferred exit strategy for each asset differs due to a confluence of various factors – industry consolidation and strategic interest among others. Exit could also happen at a moment's notice, given conducive market conditions.

In evaluating the preferred exit strategy the following would need to be considered:

i. Exit alignment with principals/shareholders – This would be done pre-investment to ensure that the fund and principals are aligned on exit. Exit provisions including tag along/drag rights may be included in the deal.
ii. Buyer universe – Identifying potential strategics or funds that may have an interest in the asset.
iii. Sector – Some assets are more inclined to various exit avenues than others.

Do you believe that IPOs will become more of a regular exit route in East Africa in the medium term?

Despite being a popular method of exit in the West, exits via IPO continue to be rare on the continent mostly due to liquidity and depth constraints. However given increasing deal flow and investment activity in the region, it is expected that a rising proportion of exits may be through listing.

Bourses across the region are actively implementing structural reforms and incentives that will see IPOs become a more viable option for funds. Furthermore, programs and initiatives aimed at broadening capital market participation are gaining traction as evidenced by rising interest in retail trading offerings. It is hoped with increased market participation, we will see better price stability and liquidity during the exit period.

As a general rule, will you enter an investment with a clear plan on what your specific exit will be? Does this often change during the holding period?

Yes, we would generally have a couple of exit strategies in mind before closing on an investment. Exit strategy is one of the most critical elements of any investment as this could turn a great deal – where steps were taken to align stakeholders, deliver growth and meeting performance targets – to a lackluster deal. From the get go, we aim to align the business with the intended exit strategy and thus ensure at exit, there is compelling narrative to justify strategic importance and upside for the buyer.

This may however change with time as market conditions are ever evolving. It is prudent to regularly conduct an exit readiness exercise, revisiting the exit strategy and assessing additional exit avenues. This will also enable the investor to work with the investee company in implementing performance improvements and value creation strategies that will continue to deliver value to shareholders post-exit.

Industry Insights – Thembie Vuma, CDC Group

Thembie joined CDC in June 2020 as the Corporate Debt Investment Director for East Africa.

Before joining CDC, Thembie worked for the Standard Bank Group based in Kenya (Stanbic Bank Kenya) in the Regional Investment Banking department where she, over the years with the bank, held roles in Corporate Financing Solutions, Loan Syndication and Sales and Debt Capital Markets.

In her current role at CDC, Thembie is tasked with supporting and raising funding for corporates across East Africa that demonstrate high development impact.

Do you think that in a lot of cases, GPs will delay exiting for a year or two due to the Coronavirus impacts on the investee companies?

Overall business activity slowed down particularly due to lockdowns. We have certainly seen during this Coronavirus season, GPs taking a lot more time to investigate the impact of Covid on the macro-economy and its impact on specific sectors which has indeed caused some delay in the processing of exits, but has not stopped them. For companies that have continued to perform and were ready to be exited, these processes have continued and have not been halted.

The only scenario in which it makes sense for GPs to wait out this Covid period for a year or two, before exiting from their investee companies, is where the businesses have been significantly impacted by Covid. In those situations, it is necessary for the investors to wait for the businesses to revert to their pre-Covid performance levels, for example, in the tourism and travel sector.

CDC have executed several direct successful exits in East Africa, including exits in DFCU Limited (Uganda) and the Export Trading Group (Tanzania). What are the key challenges faced by an investor seeking an exit in East Africa and how has CDC been able to achieve these successful exits?

East Africa benefits from the fact that it has attracted many different types of investors, both institutional and private investors, which makes it an ideal exit market. In addition, East Africa has fairly active local exchanges, with the Nairobi Securities Exchange being the most dominant one. Self-liquidating investments like Export Trading Group in the case of CDC have also been key exit avenues.

Challenges do however continue to exist, starting with finding the right buyer, at the right time. CDC in particular takes lots of time, effort and diligence in finding the right buyer for our stake given our development role as a DFI.

Working through the numerous regulatory approvals required to undertake an exit has also been a major challenge for GPs. Regulatory approvals can and should be made more efficient. To broaden the universe of companies listed, paths should be created for smaller businesses to list.

With the advent of Covid, GPs have also not realised the gains they expected, and have thus extended their positions and held on for longer than they originally intended to.

What are the key metrics that determine when CDC is ready to seek an exit?

As a DFI, we exit when we have achieved both our impact and commercial objectives. Our investment thesis revolves around what we are seeking to achieve in terms of impact, what handprint we are leaving behind and if the commercial objectives allow us to recycle our capital into new projects.

Industry Insights

What are the key exit avenues in the East African markets, and do you believe the exit avenues have shifted as a result of the pandemic?

The key exit avenues are a sale to financial sponsors, or trade sales to strategic buyers, listing and self-liquidating structures. These are all generally available options in East Africa with secondary and trade sales being the most prevalent. We have not seen a significant shift in the main exit avenues used in East Africa, but there has definitely been an emphasis on finding the right strategic buyers.

Do you feel that IPOs may become more of a regular exit route for PE institutions in the medium term? Is it necessary that this becomes the case as the number of required exits increases and there are only so many that can be done to a strategic acquirer?

It is absolutely CDC's wish that IPOs become the more regular exit route as that is a clear demonstration of a well-functioning capital market. With functioning capital markets, you get better functioning economies. The more avenues there are to invest money, which is very important in re-cycling capital, the more capital will be available for innovation and investment that will move the region's GDP upward.

Having more companies listed on the stock exchange means that there will be more options for institutional investors to choose from. The growth of domestic pools of capital, especially pension funds are the big drivers of IPO activity. As pension funds aggregate more contributions, they will then be able to make more equity investments.

We note that not many companies have gone the IPO route in East Africa, and this could be because a number of them are family-owned businesses who are not ready to fully open up to the capital markets. Having said that, we are definitely seeing more of these institutions looking to professionalise, bringing in experienced executives and considering establishing independent boards. For family owned businesses, undergoing an IPO is probably a long-term view rather than a medium-term one.

At CDC, we continue to work closely with a lot of our partners including domestic pension funds, stock exchanges and other key players to see how we can help drive IPOs in our markets. We are also working with these partners on new capital markets products that would be of interest to domestic pools of capital with the intention of deepening the local capital markets.

So far in 2021, we have had 3 disclosed PE Exits in East Africa, all in the financial services sector. How do you see the exit environment in these economies? What sectors do you believe will see the greatest potential for a successful PE exit in the next year?

The sectors where we see great potential for successful exits are those that either weathered the Covid storm or those that stand a very good chance of recovery. It is not surprising to see that financial services have seen a bullish exit environment and we do indeed expect them to continue being very active. We also anticipate successful exits in the infrastructure space. Infrastructure investors are seeking high quality East African assets especially in the utility scale power and transportation sectors. Potential exits will come from investors looking for projects that have been financially de-risked or have achieved completion and are already operational. Most importantly, infrastructure assets that have incorporated sustainability, high environmental and social standards, and climate impact considerations are particularly attractive. We expect to see strong demand for platforms or assets of scale and assets within the clean energy landscape. Given the current project pipeline, the trajectory is a healthy supply of infrastructure assets which will be ready for exits over the next several years. Sectors that have continued to do well, besides financial services and infrastructure, are pharma, healthcare and telecommunications.

Industry Insights – Faisal Jiwa, AfricInvest

Faisal Jiwa is a Partner at AfricInvest and based in Nairobi, Kenya and has been involved in leading and managing a number of private equity investments and exits in the East African region.

Previously, Faisal was with PwC in the Canadian, UK and US offices and is a graduate of McGill University. AfricInvest is a pan-African asset manager that has raised over $1.5b over the years, having made over 160 investments and over 100 exits in 30 African countries.

Please summarise some of the exit transactions AfricInvest have been involved with in East Africa.

In East Africa, our exits have included the following:

1. **UAP Holdings**, a diversified insurance and asset management business in East Africa, in which AfricInvest, together with other institutional investors, sold a majority of the group to Old Mutual Group.
2. **Brookhouse Schools**, a leading K12 international school in Kenya, where AfricInvest (the largest single shareholder in the School), together with all other investors in the school including the sponsors and other private investors, sold the entire shareholding to a UK-based education focused investment fund with holdings in various international schools around the globe.
3. **Family Bank**, a leading Kenyan bank with a focus on Micro and SME clients, in which AfricInvest together with FMO and Norfund invested in a minority stake of the bank and exited to a local pension fund and KTDA.
4. **Abacus Pharma** (part of the Kiboko Group), a leading pharmaceutical distributor and manufacturer of large and small volume parenteral headquartered in Uganda with a footprint across the East and Southern African region. AfricInvest and the sponsors sold a majority stake to a global PE player.
5. **CogeBank**, a leading bank in Rwanda where AfricInvest exited through the sale of its minority stake to a local investor.

From your experience, what have been some of the key steps you have taken, in advance of embarking on the exit transaction, that have ended up contributing to a successful exit being achieved?

The key step taken in advance of any exit – even prior to investing – is early alignment with the founders/sponsors and other shareholders of the business on the type of exit options available and the time horizon. This takes into account the sector in which the business operates, and the value-addition plans and growth potential beyond the exit timeframes so that the positive trajectory can continue beyond the exit horizon, and further includes a thorough canvasing of the strategic operators and their appetite for M&A in the region.

Once there is alignment on the key principles, the business is structured, operated, and nurtured with these factors in mind and touches upon all facets of the business such as governance, E&S, product development, regional and local expansion, and branding.

Some of the detailed steps undertaken as part of an exit include appointing advisors to provide vendor diligence around financial and legal aspects, and building investment related documentation such as information memoranda and forecasts.

At AfricInvest, we have found that investments with strong fundamentals, complemented by good governance, can attract the right kind of investment partners for exit, so all of our preparations are taken with these goals in mind.

Industry Insights

What are some of the obstacles you have faced along the way, and key things learnt in terms of making the transaction flow faster and smoother?

We have realised several exits despite challenging market conditions. Some of these challenges relate to the nature of the (East) African PE industry and its relative nascence: for example, the secondary market for PE deals is not well developed. Moreover, stock exchanges in the region suffer from liquidity constraints and other market anomalies. These two aspects can limit exit routes that are more available in mature markets. With a limited universe of options, exiting can become time- and resource-consuming, especially given our focus on finding the right future custodian for our investees. There are other constraints that are also sector or region specific, while regulatory approvals and availability of foreign exchange (in certain jurisdictions) also need to be factored. Early internal alignment is therefore imperative to ensuring smooth transactions. Furthermore, as a private equity fund manager which has a limited life funds, we are typically not able to provide representations and warranties at the time of exit which is becoming an increasing challenge particularly as we exit to larger and sophisticated players; in response to this we are turning to insurance covers, which may not always be readily available, or structuring our exits innovatively.

Looking at the existing portfolio, what would be the most prolific exit route in the next few years: trade sale, financial buyer, management buyout or public capital markets? Why is this the case?

We tend to find that exits to strategic buyers most often provide the right partners and help to realise the best financial returns. While this exit route has its own nuances and requirements, such as having to deliver control, it has been the most favorable route for our exits. Going forward, we expect this to be the case as well for our portfolio (barring any regulatory requirements like local content) and for the reasons mentioned above related to the constraints of local capital markets and secondary buy-out funds.

Are Covid-19 impacts having a detrimental impact on exits at present, and at what stage do you see this no longer being the case?

Covid has impacted exits for us. While we did not have immediate exit plans for any of the companies in our East Africa portfolio, we have had to refine the expected timing on some of our exits as business plans were impacted, certain sectoral valuations declined, and travel and business restrictions impacted the ability of international investors to perform their diligence or site visits. We have, where necessary, reviewed the business and related exit plans in terms of timing having taken Covid into account, and will continue to adapt as the situation requires.

4 Emergent Themes

Emergent Themes

Public Capital Markets as an Exit Route

Public capital markets are one of the chief liquidity avenues for private equity investments the world over. In East Africa, however, the combination of poor market performance and structural challenges have limited the use of IPOs for exits in the last 5 years. Whereas East African public capital markets generally recorded positive growth in the initial years of the 2010s, economic and political headwinds in the latter half of the decade led to poor performance with the three major regional indices – NASI, DSE and USE – only recording growth in 2017 and 2019. A bull market in global stock markets also starved local markets of liquidity. Additionally, some funds are restricted, in their mandates, from holding listed assets in their portfolios, making phased exits challenging. The combination of these broad challenges have led to minimal exit activity via public capital markets.

However, we note recent developments that make public markets more appealing. The prospect of higher global interest rates in coming years may also dampen return expectations from developed markets and in turn lead to increased liquidity in emerging and frontier markets. We are also seeing implied relaxation in restrictions against listed assets with the market recording investments by private equity funds into listed assets such as AfricInvest's investment into Britam and Kibo's investment in I&M. For large platforms, there is increased consideration being given to listings on foreign exchanges such as the JSE, LSE and NYSE as avenues for creating liquidity. In our view, though, sizes of at least USD 250m to USD 500m are required to make these avenues viable.

Less Common Exit Avenues

Minimally explored exit avenues include MBOs, demergers and asset sales. MBOs usually require the use of leverage and have historically been challenging in the region as a result of prohibitive interest rates and rigid debt structures. However, the emergence of lower cost & mezzanine financing is likely to change this perception. Whilst mezzanine debt attracts a higher rate of return as compared with senior debt, its flexibility in structure makes it ideal for buyouts where quick value creation is feasible. Additionally, for large cap and businesses that earn in hard currency, borrowing costs are likely to be lower than market averages, also making this avenue (and leverage transactions in finance) more feasible. Anecdotal evidence from the market suggests that undisclosed exits to original shareholder managers are usually debt financed.

Demergers on the other hand have rarely been explored in the East African context. This, we believe, is largely due to the complexity involved in these structures, regulatory challenges to do with labour laws and cost implications. However, investors stand to realise additional value from such strategies exploiting multiple arbitrages that may exist in different sectors rolled into one business. A classic example is in the restaurant chain business where such a company could feasibly be considered a delivery, commercial kitchens and restaurants business. Elsewhere in real estate, development assets and yielding assets rolled into one business present different value propositions to yield seeking and development risk investors.

Emergent Themes (cont.)

Investment Horizons & Exits

The private equity model in SSA largely mirrors that in developed markets with fund mandates formally running for a 10 to 12-year period. This usually means that PE funds have a limited investment period within which to create value - typically 5 to 6 years – whereas value creation tends to take a longer period of time in a large cross-section of sectors in the region. Whilst the East African region is home to some of the fastest growing economies in the world, the region's economies also have to grapple with negative impact events with generally slow recovery times as compared to developed markets. As valuations in the region are largely based on a multiple of profitability, this means that singular events can significantly affect valuations and push out exit years further. This has resulted in a preference for high growth sectors that are highly adaptable such as the financial services and ICT sectors; and for stable defensive sectors such as the energy sector.

One of the industry responses to this issue has been an increase in the number of patient capital vehicles and evergreen funds that have more flexibility. Additionally, we continue to see increasing popularity of holding company structures, particularly as applied to platform plays.

Value Creation Strategies

Traditionally, a majority of private equity investments in the region have been restricted to growth equity investments, with value creation envisaged through capacity expansion and efficiency gains. This is in sharp contrast to other markets where other strategies such as leverage, business combinations, as well as business splits are employed to realise value.

We are, however, increasingly witnessing adoption of the oft unused strategies, particularly in the large cap space. Investors into large businesses that earn significant revenue in hard currency are taking advantage of historically low interest rates in global debt markets to leverage up their investments, whilst platform plays, in order to corner the market, have in recent years become more prevalent, though challenging to execute. Examples of these strategies in play include Ascent Capital's investment into Auto Springs East Africa in partnership with AfricInvest's credit finance fund and Amethis' investment into Ramco Plexus which created a printing and packaging platform that is now a market leader.

5 Conclusion

Conclusion

In conclusion, we are pleased to see that the trend in exits is increasing again, and we expect this continue in the short to medium term, in particular given the recent uptick in M&A sentiment in the region.

Whether this will continue in the medium to long term will depend on market, economic and political developments. If public capital markets (via IPO) can be come a more viable exit route; use of leverage can become more prevalent in PE deals; governance levels continue to improve; and if political cycles can become less acutely impactful, then we would see really perfect conditions for a massive and sustainable increase in these transactions. With the exception of political impacts, we would view these developments as achievable, and in the case of increased leverage and improved governance - highly likely.

For public capital market exits to grow, LPs will need to be more comfortable with PIPE (Private Investment in Public Equity) investments by PE firms. On East African exchanges it is hard to exit 100% of a PE stake during the public offering on day 1. It usually requires a phased exit approach with a partial exit at the IPO and then the remainder over the early years of the listing.

We have seen that secondary buyout is the *second most common* form of exit both by number and by value of deals. We expect this to grow in particular as more buyout funds are active in the region and the concept of one fund buying another fund's stake becomes more and more accepted. In our view this needs to be the case because liquidity is the most important priority of all in any market. Trade buyers cannot carry the full load in this exit route, it would simply not be sustainable.

Meanwhile, direct investments by DFIs, and the growing creation of PCVs (Permanent Capital Vehicles) will likely contribute a downward influence in the frequency of exits of course, due to their longer holding periods.

We have shown, through the contributions of our interviewees and through sharing our own experiences in the market, that some of the keys to successful exits are:

1. Aligning with the promoter of the investee company from the very start of the investment.
2. Having a clear exit plan from time of investment.
3. Staying flexible to changes in environment so that exit plans can change if need-be.
4. Being nimble and alert to press the button on an exit early if the optimum market conditions arrive early.

We believe that in almost all cases, having a high quality asset, and a commitment to uncover all the right stones, will lead to a successful exit in any environment - it just may take longer in the tougher environments that we often encounter in the region.

We do hope you have found our publication of interest and of use. We would like to leave you with a few technical slides, from our experience, on the exit process itself.

6 Key Considerations and Exit Process

Key Considerations for a PE Exit

- **Financial Performance**
- **Valuation**
- **Growth Strategy**
- **Leverage**
- **Use of Proceeds**
- **Impact of Covid-19**
- **Government and Regulations**

The Exit Process - Overview

A well structured process is key for a successful transaction (Process tips from IMBC's experience)

- Excluding IPOs and listings, the Private equity exit process is largely similar to that of M&A transactions, with the key difference being specific considerations for the fund objectives. Where an exit is sought via public markets, the first two steps in the process flow beside are still applicable.

- As with all transactions, deal structuring is key to setting the right tone for the transaction and hugely influential in determining the success of the deal.

- In the next slides, we will focus on the key considerations for exiting investors and their advisors across the deal timeline.

1. Test Marketing, Company Analysis and Valuation
2. Transaction Marketing
3. Due Diligence & Commercial Negotiations
4. Completion

The Exit Process – Step 1

Company Analysis, Valuation & Test Marketing → Transaction Marketing → Due Diligence & Commercial Negotiations → Completion

- An assessment of the company's market position, financial performance and product offering is used to determine the attractiveness of the company to potential investors and buyers.
- As a large proportion of private capital available for investment in East Africa is sourced from developmental sources, a primary capital need either at the same time as the exit, or following the secondary transaction, is an added bonus.
- An independent valuation can be used as a check against the investor's perception of the asset value and ultimately, the return estimates from an exit. It is also useful in determining the ticket value of the transaction and in turn this will be one of the inputs in determining the exit avenue.
- Exit avenue assessment is also carried out at this stage with the key criteria being:
  - i. The value/size of the Company – key for an exit depends on the ability of the market to absorb the ticket size (liquidity).
  - ii. The stake available for sale and exit horizon – as previously witnessed in East Africa, exits have sometimes happened in stages or blocks;
  - iii. Financial performance and position of the company;
  - iv. Growth capital needs of the company; and
  - v. Growth stage of the Company.
- It is also imperative to get Management's alignment with the exit plan, especially where they are also a significant shareholder and seek to realize some value from the exit. Management incentivisation structures may be necessary.
- A review of the shareholder documents to understand the key clauses and rights of all shareholders is also key.
- A test marketing exercise is useful in determining investor interest in the transaction and investor preferences on structure and other terms, before significant time and money is spent on the process.

The Exit Process – Step 2

Transaction Marketing → Due Diligence & Commercial Negotiations → Completion

- Central to a private equity exit is the maximization of value and as such, a competitive bidding process is ideal.
- Where a partial stake is up for sale, it is essential that the Management's/the Board's vision for the company is communicated to the potential bidders.
- This is best achieved by having key Management team members communicate the Company's story. Other ideal items include:
  - i. An attractive and informative information memorandum;
  - ii. A well structured and sufficiently detailed data room; and
  - iii. A broad understanding of the Company and market by the transaction advisor.

I&M Burbidge Capital

The Exit Process – Step 3

Due Diligence & Commercial Negotiations — Completion

- Depending on the nature of offers received and how close the valuations are, a vendor due diligence approach may be taken to maintain a competitive process and extract further value.

- Information flow is key to an efficient and expedient completion of the due diligence process. It is also advisable that, ahead of a 3rd party led due diligence exercise, the sellers assess any potential issues that may be flagged by the exercise and proactively develop mitigation strategies. It is also advisable to be ahead of the curve in populating the due diligence dataroom.

- Commencement of transaction documentation can be considered following receipt of initial due diligence reports barring any red flag issues becoming apparent.

The Exit Process – Step 4

Due Diligence & Commercial Negotiations → **Completion**

- The key terms in transaction documents that exiting investors should consider are similar to those that they would consider in an investment transaction, now taking the opposite side.

- Key terms to consider that are specific to a PE exit transaction are listed below. The goal with these is to limit fund liability exposure and ensure maximum upfront cash payment.
    - Warranties and indemnity structures
    - Guarantee structures
    - Payment Structures
    - MAC clauses & Completion basis

7 Disclaimer

Disclaimer

This document has been prepared on the basis of information and forecasts in the public domain. None of the information on which the document is based has been independently verified by I&M Burbidge Capital Limited nor its affiliate bodies and associates, who do not take responsibility for the content thereof and do not accept any liability with respect to the accuracy or completeness, or in relation to the use by any recipient of the information, projections, opinions contained in this document.

This document is purely for information purposes only and should not be relied upon to make any investment decisions or any other decisions. Any liability is disclaimed, including incidental or consequential damages arising from error or omission in this document