
Go West: Africa that is. The Next Investment Frontier.

8 October 2012



Western Africa Market Overview

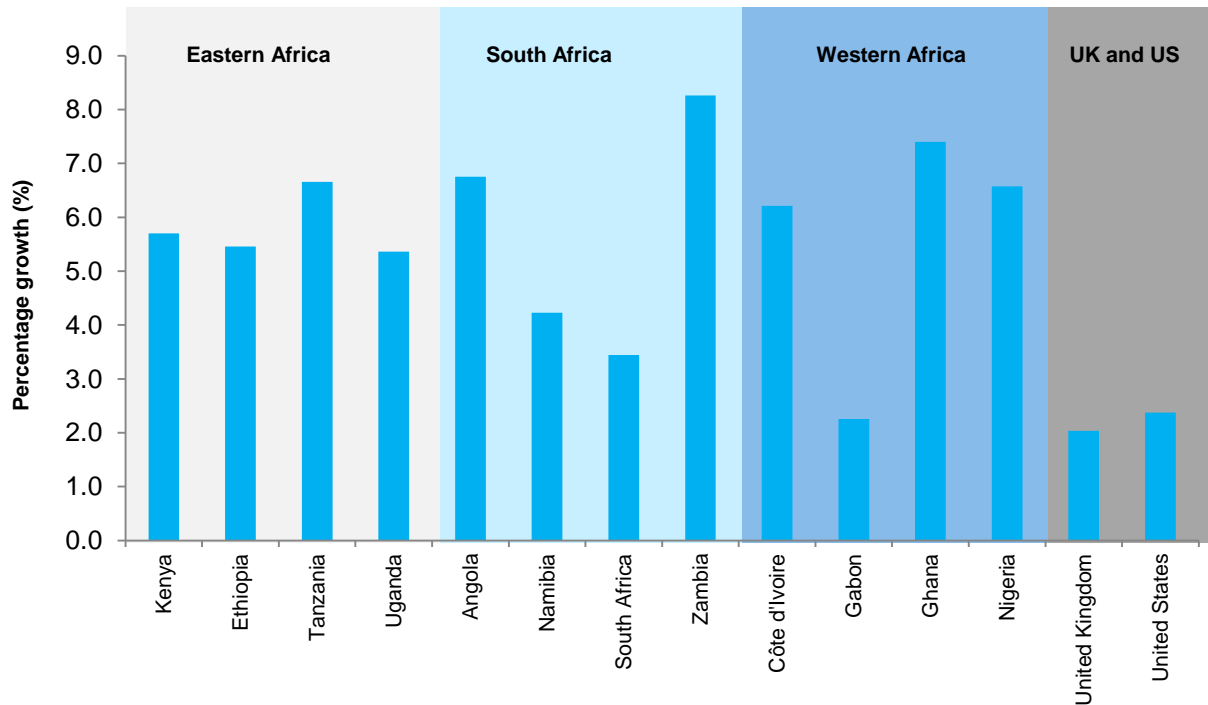


Melvin Glapion
Managing Director, Kroll Advisory Solutions



Real GDP growth rates are two and three times that of the UK and US

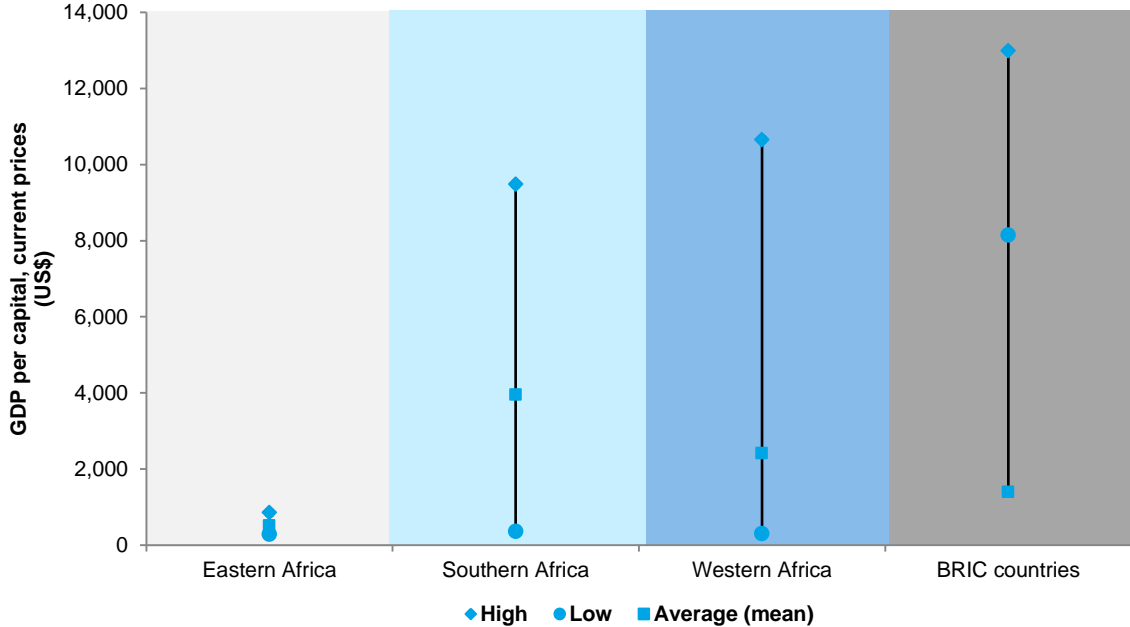
Real GDP percentage growth - 2013



Source: IMF, World Economic Outlook

There is significant disparity in income per capita within regions, and the average income per capita is less than the BRICs

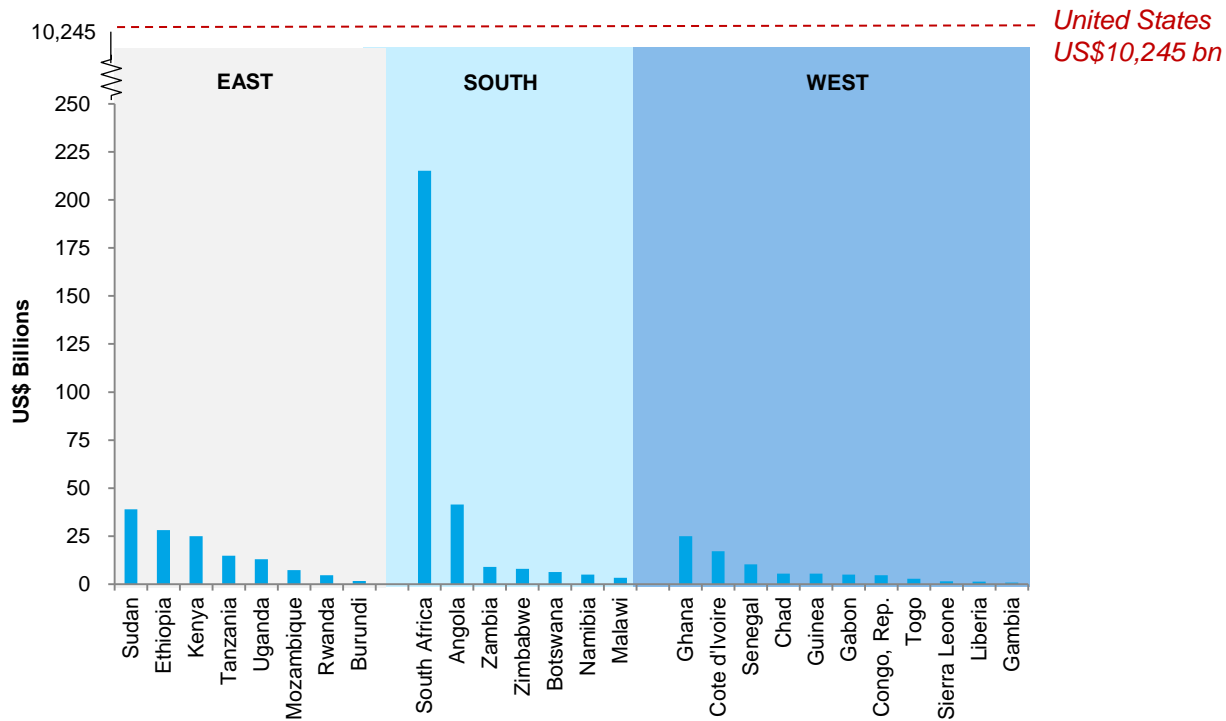
GDP per capita, US\$
2011



Source: IMF, World Economic Outlook
Note: Data for selected African countries

The consumer base in Africa offers endless opportunities, but household consumption is less than developed markets

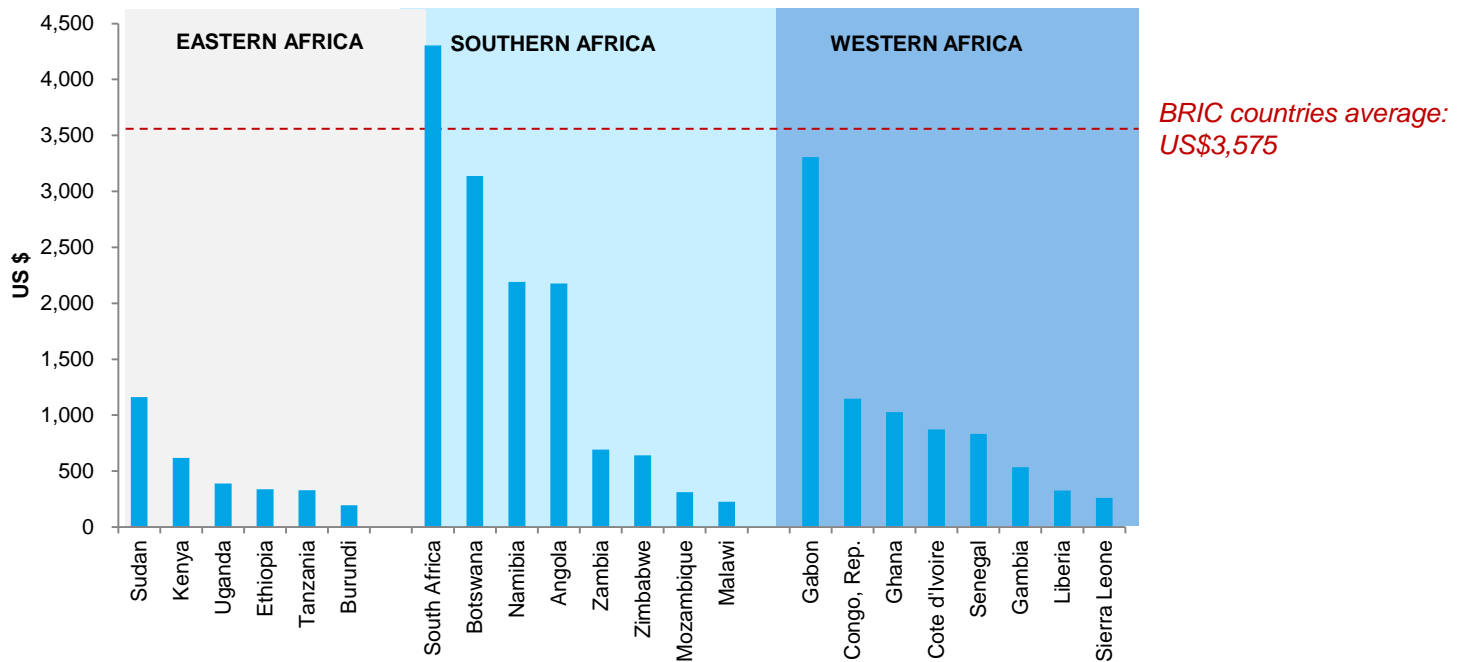
Household Consumption, US\$
2010



Source: World Bank

Household consumption per capita varies widely across the continent and within regions

Household Consumption per capita, US \$
2010

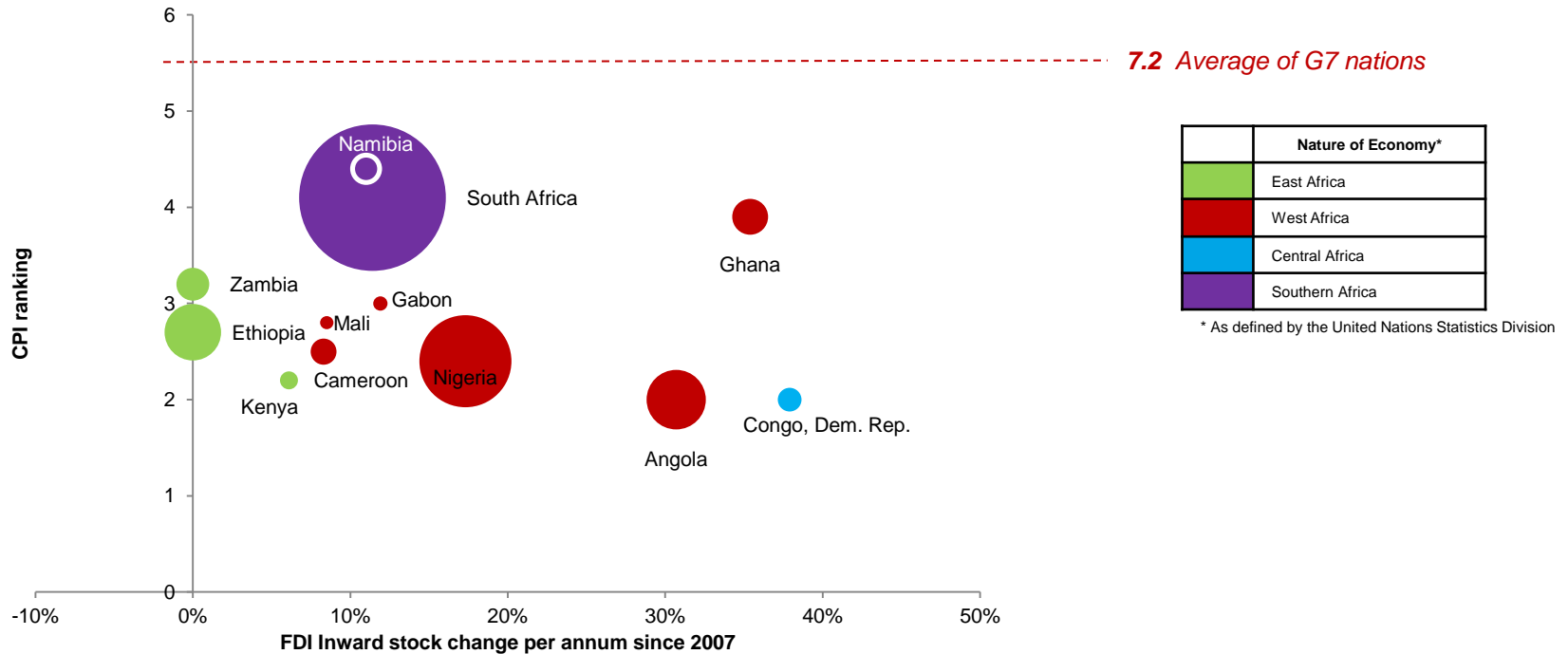


Source: World Bank

Note: Data for selected African countries

FDI has historically focused on diversified or oil-exporting economies – in countries which are perceived to be less corrupt

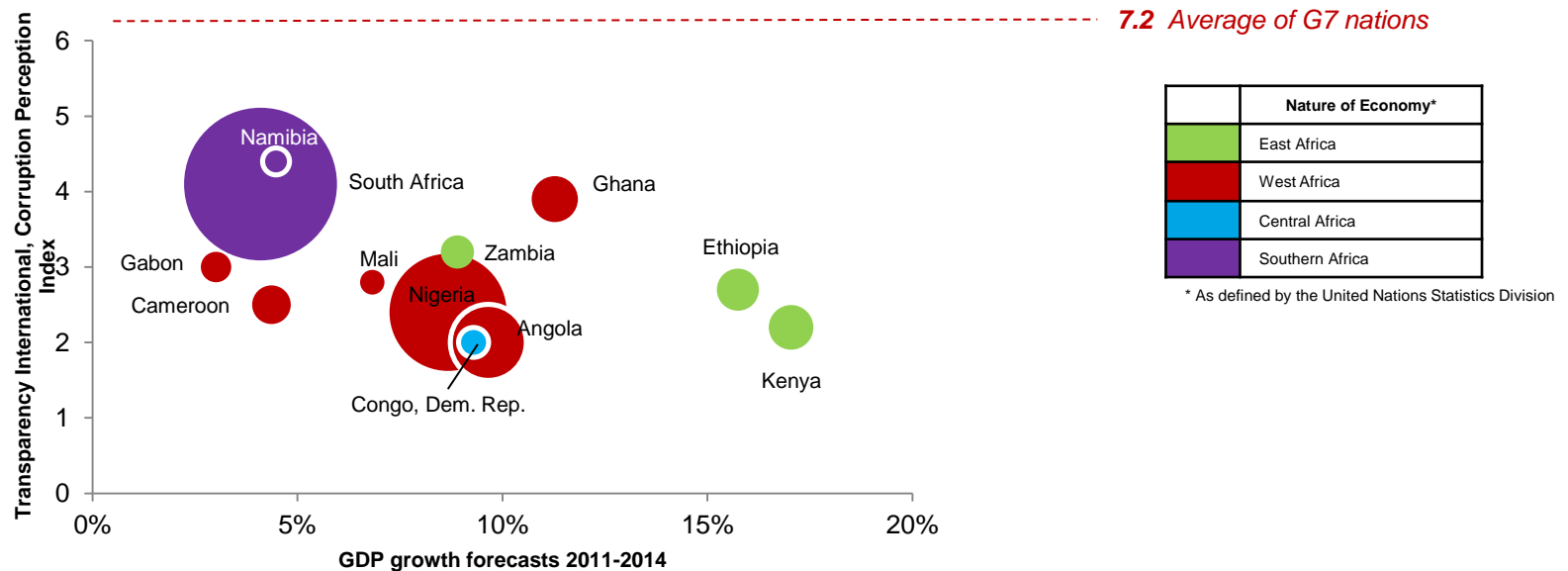
FDI Stock inwards vs. Corruption Perception Index 2011



Sources: Transparency International for Corruption Perception Index, International Trade Centre for FDI Inward Stock; Country categorisations based on The McKinsey Global Institute's 'Africa at work: job creation and inclusive growth.' August 2012.
 Notes: The Corruption Perceptions Index ranks countries/territories based on how corrupt their public sector is perceived to be. A country/territory's score indicates the perceived level of public sector corruption on a scale of 0 - 10, where 0 means that a country is perceived as highly corrupt and 10 means that a country is perceived as very clean. A country's rank indicates its position relative to the other countries/territories included in the index.

Growth is expected in transition economies, many of which do not score highly on the corruption perception index

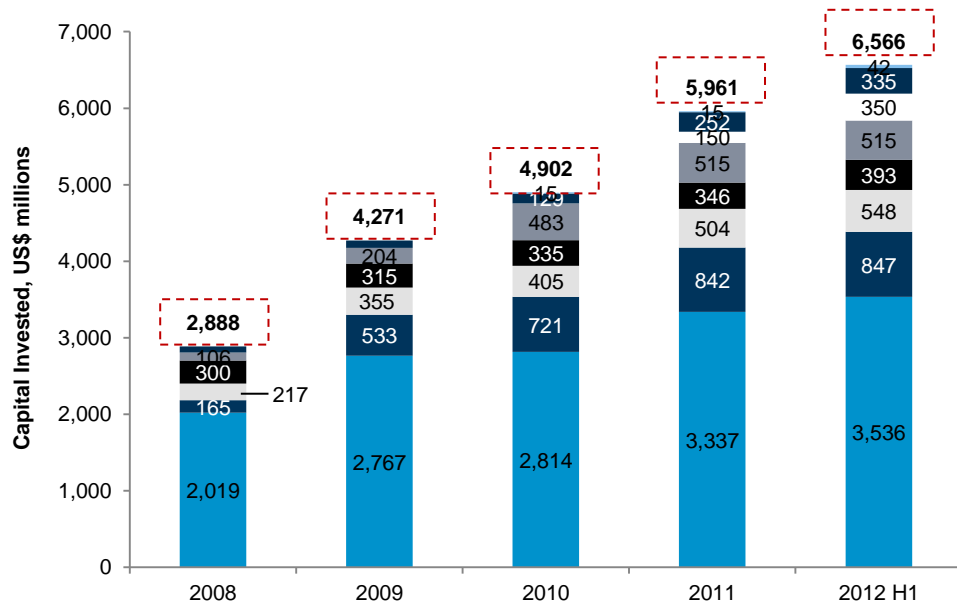
GDP growth forecasts vs. Corruption Perception Index 2011



Sources: Transparency International for Corruption Perception Index, IMF World Economic Outlook for GDP forecasts; Country categorisations based on The McKinsey Global Institute's 'Africa at work: job creation and inclusive growth.' August 2012
 Notes: The Corruption Perceptions Index ranks countries/territories based on how corrupt their public sector is perceived to be. A country/territory's score indicates the perceived level of public sector corruption on a scale of 0 - 10, where 0 means that a country is perceived as highly corrupt and 10 means that a country is perceived as very clean. A country's rank indicates its position relative to the other countries/territories included in the index.

Much of the investment in the past has flowed to South Africa, but is now expanding across the continent

Sub-Saharan Africa PE Investment Cumulative Total, 2008–2012 H1



Cumulative total

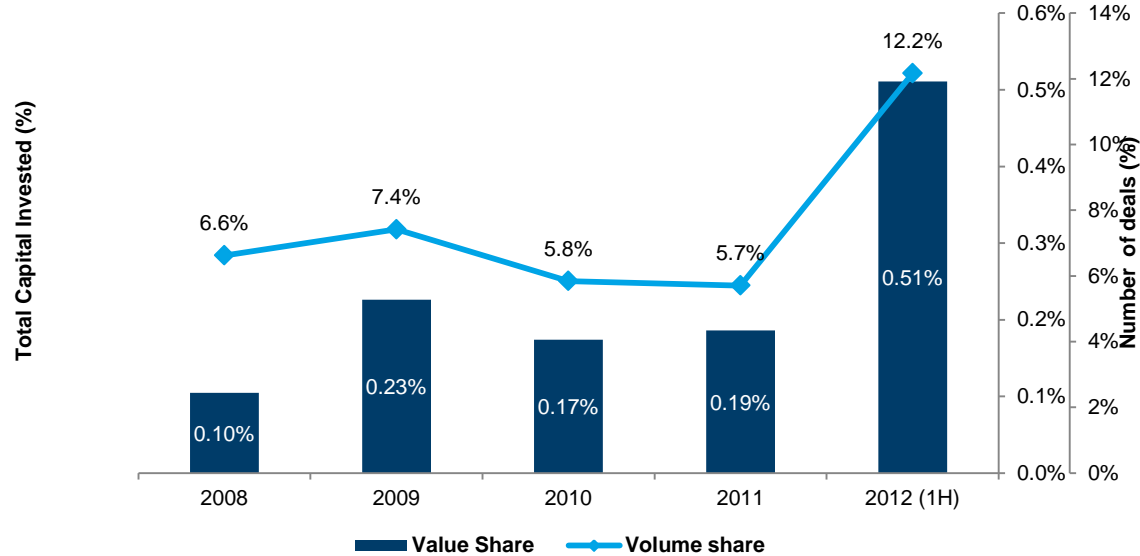
Country	2008-2011 CAGR
Other Southern Africa	n/a
Other East Africa	46%
Sub-Saharan regional Africa	n/a
Other West Africa	69%
Ghana	5%
Kenya	32%
Nigeria	72%
South Africa	18%

n/a: no CAGR as no data for 2008

Source: EMPEA, August 2012
Data as of 30 June 2012.

The share of private equity investment into sub-Saharan Africa has increased in both volume and value

Share of Private Equity deals in Sub-Saharan Africa
2008-2012



Source: Emerging Markets Private Equity Association.
Data as of 30 June 2012.

Recent fundraising

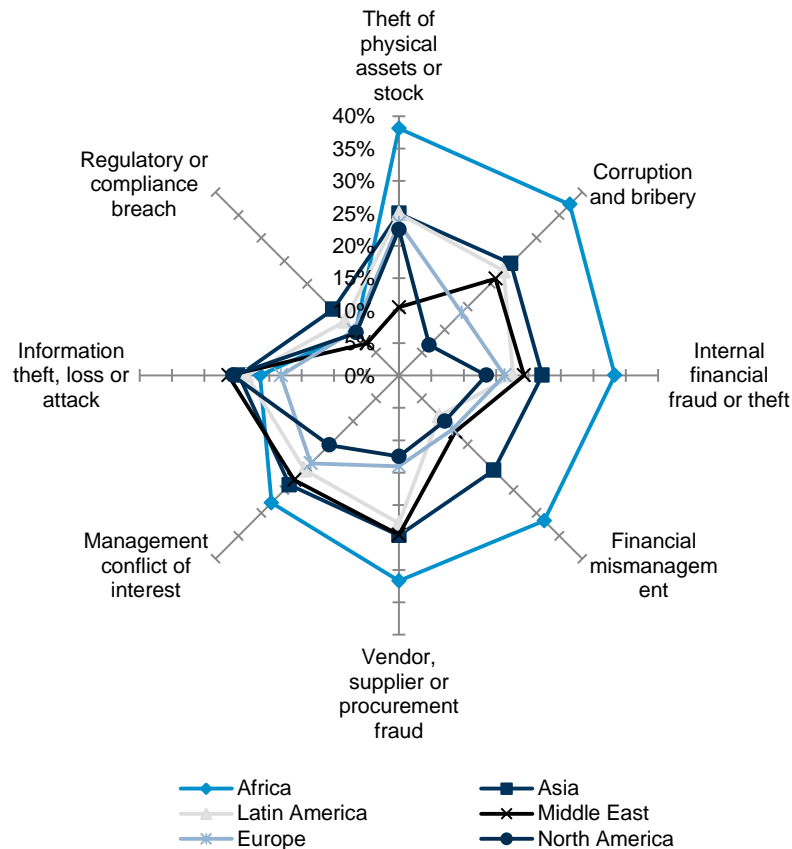
- Vantage Capital closed one of 10 largest funds in H2 2012, a generalist fund focused on sub-Saharan Africa. Total Capital Raised to-date US\$ 251m
- In 2011, Helios Investment Partners achieved a final close of US\$ 900m

Recent investments over USD 100 million

- **Actis** bought **Tracker**, a company in the consumer sector in South Africa, for US\$443m in October 2011
- **Capital International Private Equity Funds (CIPEF)** invested US\$150m in Sub-Saharan Telecoms company **Eaton Towers** in September 2011.
- **Hony Capital** invested US\$100m in **Madagascar Wisco Guangxin Kam Wah Resources SA (MWG)** a Madagascan mining company in February 2011.
- A consortium including **Investec Asset Management (IAFPEF) FMO, IFC** (in June 2011) followed by **Investec Asset Management and ECP** (in December 2011) invested \$141m in Pan African Telecom tower company **IHS Nigeria**.
- **Kerogen Capital** invested US\$125m in Sub-Saharan oil and gas company **NewAge (African Global Energy) Limited**, in January 2012.
- **Ethos Private Equity** bought South African retail company **Kevro** for US\$104m in January 2012.

Africa has a broad range of fraud-related issues and scores highly in most categories

Respondents' fraud-related loss

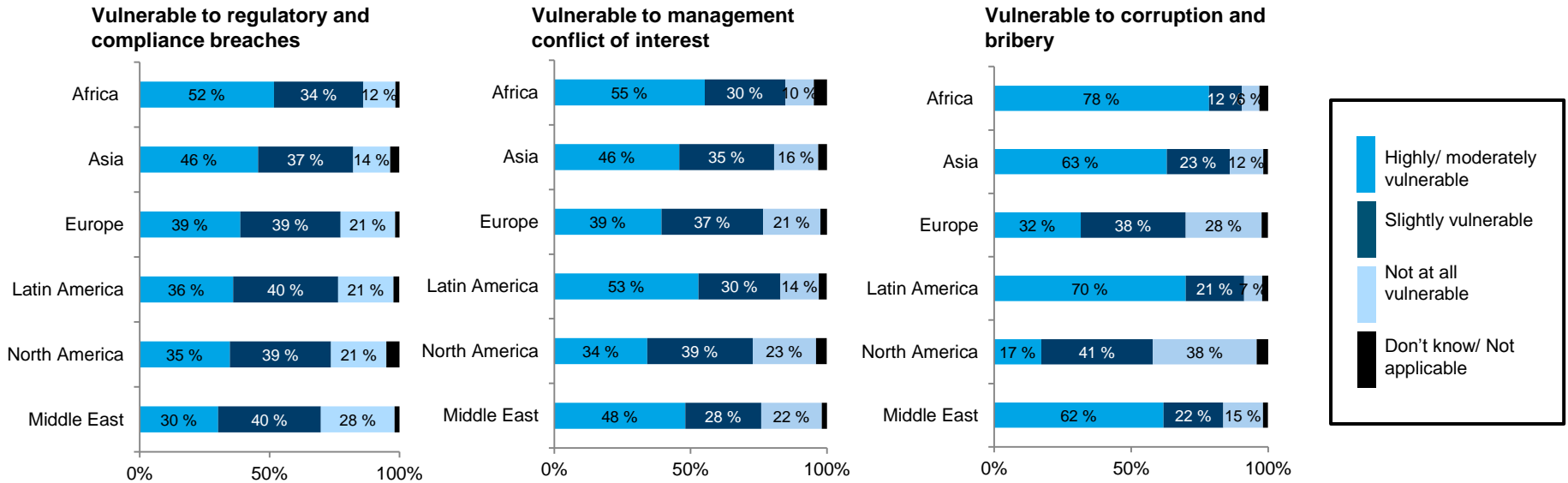


Key issues:

- **Overlap between public and private sector**
- **Difficulties in conducting due diligence**
- **Deal size means due diligence tends to be focused on legal issues**
- **Aggressive regulatory frameworks mean Africa is deemed high risk**

Source: Kroll Global Fraud Report, 2011/2012 with EIU; polled 1,265 senior executives worldwide in June and July 2011

Key issue: Overlap between public and private sector

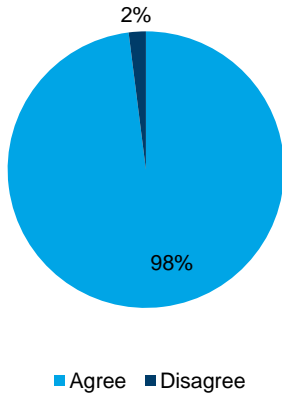


- **Lack of transparency**
 - **Opaque corporate structures**
 - **Undisclosed beneficial owners**
- **Concern about government relationships**
- **Striking a balance: maintaining relationships vs. quid quo pro**

Source: Kroll Global Fraud Report, 2011/2012 with EIU; polled 1,265 senior executives worldwide in June and July 2011

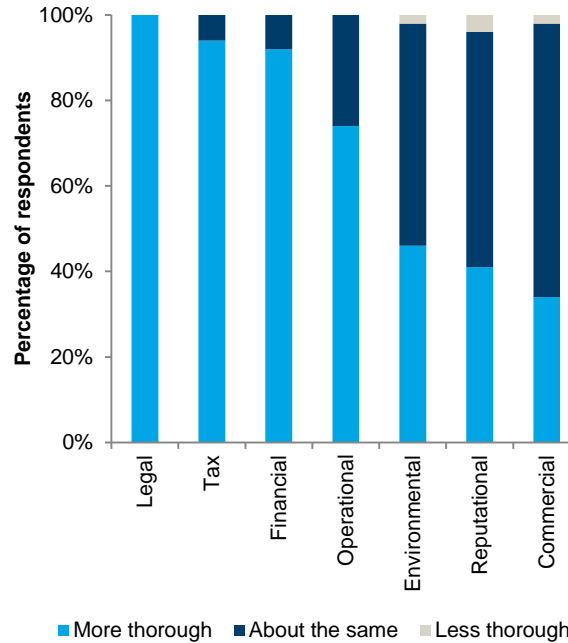
Key issue: Difficulties in conducting due diligence

Due diligence in emerging markets (or on targets with significant exposure to emerging markets) requires a different approach. Agree or Disagree?



“In emerging markets, an out-of-box approach is required and due diligence has to be done in more detail. The quality of information, whether financial or operational, is always questionable because local, private companies lack sophisticated financial reporting functions and do not provide information on how the business is monitored”

How would you describe your due diligence activities in emerging markets, compared to your due diligence activities in developed markets?



- Poor information
- Need to adapt approach
- Intelligence versus fact based

Source: Kroll, Mergermarket Survey, “Private Equity into high risk markets – the need for a new approach”, 2012I; based on interviews with 50 private equity investors based in the UK with significant exposure to emerging markets

Key issue: Deal size means due diligence is focused on legal issues

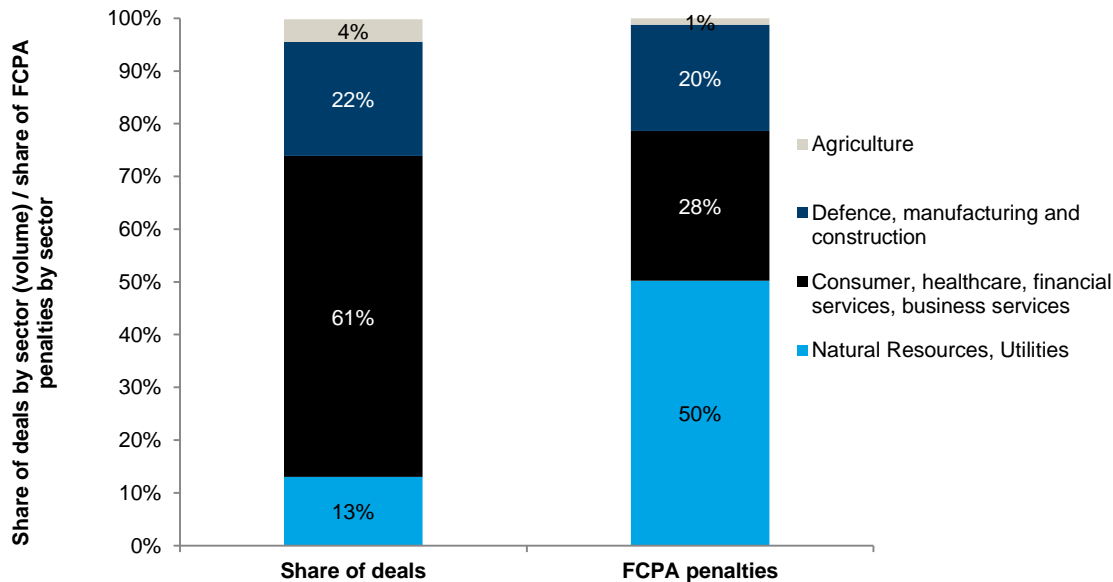
Top 10	Emerging Asia Company name and deal size US\$ millions		Sub-Saharan Africa Company name and deal size US\$ millions	
1	Taikang Life Insurance Corporation	925	Tracker	443
2	Television Broadcast TVB	804	Eaton Towers	150
3	Greater China Intermodal Investments	750	Madagascar Wisco Guangxin Kam Wah Resources SA (MWG)	100
4	Hero Investments Pvt Ltd	750	Wanachi Group Holdings	58
5	Patni Computer Systems	700	First Hydrocarbon Nigeria	50
6	Alibaba Group	480	Universal Industries	45
7	Welspun Corporation	300	IHS	39
8	PT Link Net	269	IHS	32
9	Golden Jaguar	250	Afrifresh Group	20
10	Funtalk China Holdings	250	Africa Railways	20
Total – Top 10		5,499	Total – Top 10	957
Average (median) - Top 10		590	Average (median) - Top 10	48

- **Smaller deal size reduces levels of due diligence**
- **Reliance upon legal frameworks (SPA, management retention agreements)**
- **Questions around adequacy of legal system**
- **Compliance for corruption and bribery**

Source: EMPEA 2011 Investment Review

Key issue: Aggressive regulatory frameworks deem Africa as a “high risk” jurisdiction

Investment and FCPA penalties, by sector



- Oversight & control
- Post execution due diligence
 - Forensic accounting review
 - Anti-bribery compliance
 - Employee screening
 - Supplier vetting
- Exit opportunities

Sources: Private Equity International (based on Mergermarket data); FCPAmap.com
Notes: Deal data based on number of deals by sector, August 2011- July 2012; FCPA data based on value of penalties in US Government FCPA cases since 1977

SFO is reviewing its guidelines and may become more aggressive in pursuing prosecutions

The Serious Fraud Office (SFO) is reviewing its Bribery Act guidance, with sections on self-reporting, facilitation payments, gifts and hospitality currently withdrawn from the watchdog's website.

An SFO spokesperson confirmed the advice was under review, but declined to offer further details, or suggest how long the review is expected to take.

Since its introduction last year, the Bribery Act has received huge attention from corporations keen to be fully briefed on all areas of compliance amid widespread wariness of tightened regulations.

*News of the **review has been identified by some lawyers as further evidence of a more aggressive approach from the SFO** following last year's appointment of barrister David Green QC as its new director.*

*Covington & Burling's Robert Amaee, who was this week made up to equity partner after joining the US firm as of counsel last year, said: **"The new SFO director has, over the last few months, clearly signalled his intention to adopt a more hard edged prosecutorial approach at the SFO, focused on investigating and prosecuting only 'top drawer' fraud and corruption.***

*"He does not see the **SFO as being in the business of issuing guidance**, saying that there is 'oodles' of guidance out there already. It is perhaps not surprising then that the SFO is talking time to review and update its current guidance."*

*Amaee added that the tone of any new SFO guidance would be crucial, and highlighted "the impact that this will have on the SFO's efforts **to encourage self-reporting and cooperation by companies that uncover instances of wrongdoing**".*

Pinsent Masons corporate crime head Barry Vitou commented: "A lot of water has passed under the bridge since the original guidance, which was out of date.

*"The new guidance should give us the clearest indication so far on the way the SFO, under the new director, will approach self-reporting, prosecution and the resolution of cases going forward. **Given the increasing emphasis on self-reporting, it is extremely important.**"*

*However, one bribery specialist partner at a magic circle firm cautioned: "On the one hand this **signals a potentially more aggressive approach**, but at the moment it is **too early to read too much into this review.**"*

Compliance infrastructure costs surging

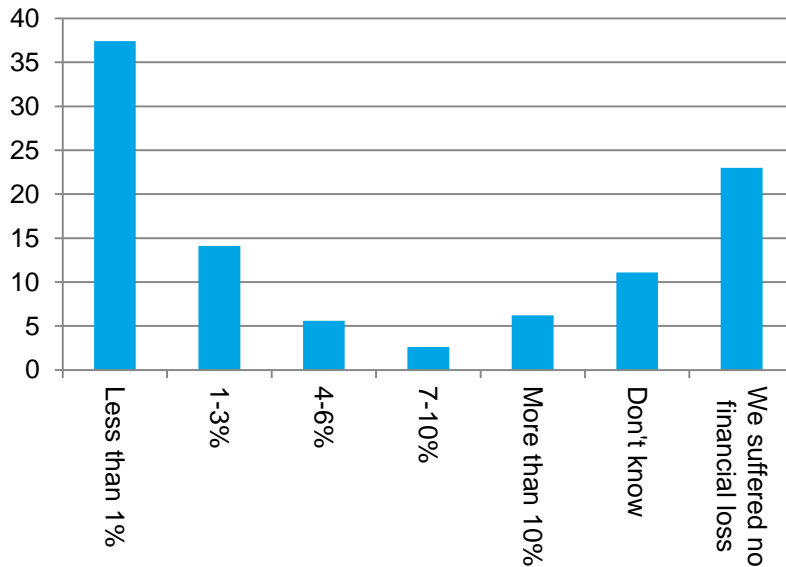
Cost of mismanagement across all three categories accounts for 3-5% of global revenues for FTSE 350 companies

PREVENT	DETECT	RECOVER
Third Party Screening	Financial Controls	External Investigations
Employee Screening	Inventory Management	Internal Investigations
Senior Hire Screening	Physical Security	External Forensics
Risk Assessments	IT Security	Internal Forensics
PEPs Analysis	IT Countermeasures	External Legal
Employee Training/ Whistleblower	Audit Committee	Internal Legal

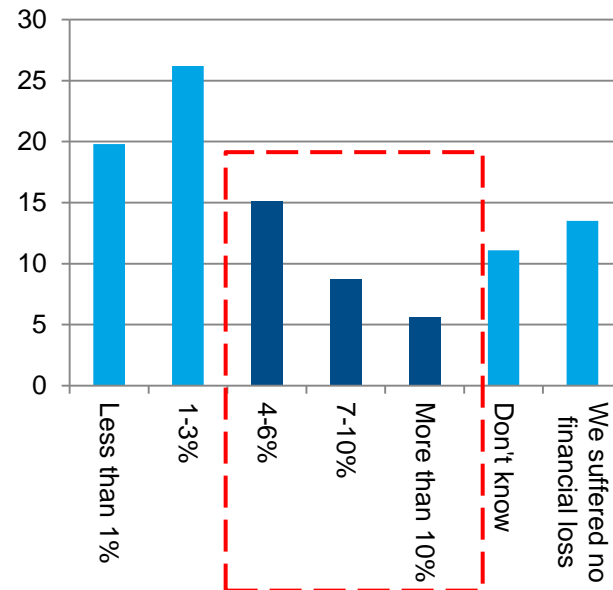
Cost of getting it wrong

Losses of more than 4% are more common in Africa than Western Europe

Europe



Africa



The Realities of the UK Bribery Act

Do companies have adequate procedures?

- **Third – party selection policy;**
- **Facilitation payments register;**
- **Sponsorship and donations policy;**
- **Employee expenses policy;**
- **Hospitality policy;**
- **Gifts policy; and**
- **Gifts register.**

Sources: FTI Consulting

