



Q1-Q2
2023

Private Capital Activity in Africa

A MID- YEAR IN REVIEW

A Lacklustre First Half

Despite earlier reports of projected economic growth in Africa, the first half of 2023 continued to mirror the macroeconomic trends of the second half of 2022, characterised by depressed GDP growth rates, high inflation, and high interest rates across the continent. Investors in Africa continued to bear the brunt of persistent inflation which climbed to an average of 15.5% in H1 2023¹, while simultaneously experiencing a depreciation of local currencies and foreign exchange pressures. The net effect of the continued slowdown in the global economy reflected with a heavier impact on the private capital activity in Africa.

It therefore comes as no surprise that deal volumes and values in H1 2023 remained modest, recording US\$2.2bn across 196 investments. This amounted to a 44% decrease in deal volumes and a 52% decrease in deal values when compared to H1 2022. While significant, the decline mirrored trends in private capital globally, where global deal volume and value declined by 44% and 43% respectively. Despite these downward trends, there is a silver lining, as H1 2023 saw the second-highest deal volume and the third-highest investment values on record in the last 7 years, demonstrating the resilience of the private capital industry in Africa.

The decline experienced in H1 2023 in Africa was largely driven by suppressed deal activity in venture capital. Though it remained the most dominant asset class by market share in Africa, investors directed less capital and made fewer investments

towards venture capital during the first half of the year, resulting in both deal volume and value declining by more than 40% compared to the corresponding period last year. This was driven by the decline of venture capital megadeals (investments totalling US\$100mn+), which suffered a substantial 3.5x and 3x drop in deal volume and value compared to the first half of 2022 respectively. It is however worth noting that all other asset classes were also affected by the decline of larger ticket sizes as investors treaded with caution triggered by global liquidity and cash flow concerns, choosing instead to focus on allocating smaller ticket sizes across the board.

Despite the tremors of muted deal activity being felt across all the asset classes, private debt remained resilient, emerging as a popular investment strategy. Following peak activity in 2022, the asset class managed to attract similar deal volumes (20) in H1 2023 as it did in the corresponding period in 2022, highlighting the continuing demand for private debt as an attractive alternative source of funding in an environment plagued by rising interest rates and tightening lending standards by banks. Reflecting the trends across other asset classes, private debt deal values however suffered a decline in H1 2023 as the riskier investment climate pushed private debt funds to reduce their position size. Notably was the absence of large private debt investments in Q2 2023, as opposed to the corresponding period last year, which had a negative impact on the overall deal value recorded in H1 2023.

¹ <https://www.imf.org/external/datamapper/PCPIPCH@WEO/SSA>

Fundraising Resilient as Investors Exhibit Increasing Interest in Private Debt Funds

In the first half of 2023, fund managers continued to navigate fundraising under the weight of a tough macroeconomic environment. Despite the bleak economic situation on the continent, investors did not shy away from making commitments into funds seeking to invest across various strategies. Fund managers raised a total of US\$1bn in final closes in H1 2023, attaining similar final close values recorded in H1 2022. In addition, another US\$1.3bn was raised in interim closes, already accounting for a significant 76% of the total interim close values reported for the entire year of 2022. Data from H1 2023 therefore suggests that despite the current negative outlook on the industry, fundraising activity in Africa is showing signs of stability and is headed towards achieving the same levels of activity seen in 2022, without excluding the possibility of a modest growth.

In H1 2023, fundraising strategies took an interesting turn. Specifically, investors exhibited increasing interest in private debt funds as the demand for private debt in Africa continues to grow. While the number of private debt funds in the market remain relatively low, these funds nevertheless attracted substantially more capital in H1 2023 than in previous years. In H1 2023 alone, private debt funds raised US\$0.4bn, a significant 3x the total value raised in the entire year of 2022. Private debt funds additionally attracted US\$0.3bn in interim closes in H1 2023, in contrast to the US\$0.02bn raised in the entire year of 2022.

Southern Africa Remains Resilient Amidst Regional Decline

Southern Africa demonstrated resilience during the first half of 2023, weathering the storm with a comparatively milder 9% decline in deal value, in contrast to the over 50% decline experienced across all other regions. East Africa on the other hand suffered the largest decline in deal value (76%) in H1 2023, a shadow of the spectacular performance recorded in H1 2022. Similar trends were observed in West Africa, where deal value declined by 59%.

The value of investments in Southern Africa remained relatively stable across all asset classes, even recording a 10% increase in venture capital investments. The modest decline in the value of investments in the region in H1 2023 was mainly driven by the outstanding performance of the Utilities sector, which recorded the

highest deal volume and value in any first half in the last 7 years. This was largely due to an increase in renewable energy investments in South Africa, coming in at a time when the government is implementing the 2023 – 2027 Just Energy Transition Investment Plan aimed at mobilizing resources to support the transition towards a low carbon economy and increase energy security in South Africa.

Financials Sector Maintains Dominance

The Financials sector continued its reign as the most popular investment sector in Africa, receiving the largest share of deal volume (20%) and deal value (31%) in H1 2023. Despite the continued dominance, the Financials sector was however not immune to the investment scourge which affected the first half of the year, as both deal volume and value declined by 63% in H1 2023 when compared to H1 2022.

A deep dive into the sector reveals an unsurprising trend of venture capital deals driving investment activity within the sector, with Fintech companies receiving 75% of the total volume of investments in Financials in H1 2023. Traditional financial institutions such as banks, investment and insurance companies were however not left behind and accounted for the remaining 25% deal volume.

While all other sectors experienced a decline of more than 50% in value, there was a 2.7x uptick in the value of investments in the Consumer Staples sector (which typically includes investments in food and beverages) and a 8.3x increase of investments in the Materials sector (which includes investments in chemicals) driven by two supersized investments in H1 2023.

Exit Activity Muted

In contrast to the impressive exit performance recorded in 2022, exit activity remained muted with 17 exits reported in H1 2023 in comparison to 29 exits reported in H1 2022. The downward trends in exit activity across Africa in 2023 H1 mirror the challenges that fund managers face on a global scale when seeking to exit their portfolio companies amidst the current macroeconomic backdrop, necessitating longer asset holding periods.

Navigating H2 2023: Trends to Watch

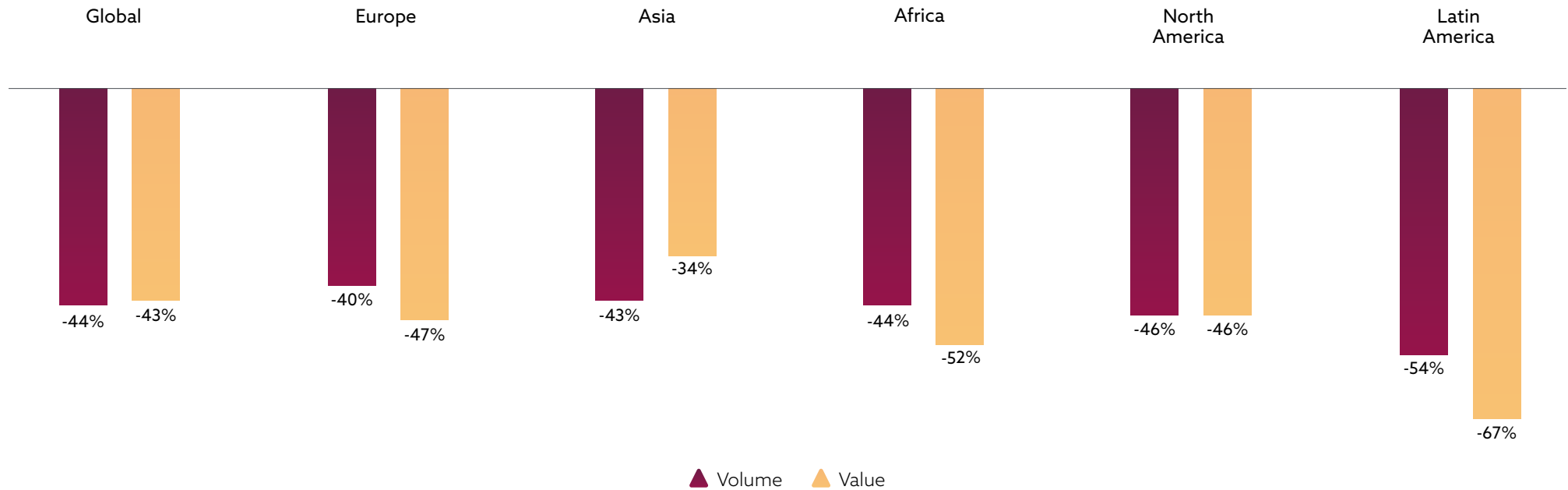
As the curtain falls on H1 2023, it is evident that the private capital activity thus far remains far from favourable, particularly coming off the spectacular performance recorded in 2022. However, these trends must be examined against the larger macroeconomic situation globally which informs investor choices in the region.

Based on the trends highlighted in H1 2023 and the general undertone of caution in the global economic outlook for the rest of the year, global macroeconomic trends are anticipated to continue shaping the private capital landscape in the second half of this year. As inflationary pressures continue to persist across the globe, we can expect investors to continue erring on the side of caution by making investments of smaller ticket sizes as they maintain their focus on venture capital, an asset class with untapped potential in Africa. It can further be expected that private debt will continue to grow in popularity as an investment strategy, while the narrowing of global cash flows may lead fundraising levels in Africa to remain comparable to last year's values, with a potential rebound to historical highs.

Overall, H2 2023 will likely be characterized by cautious optimism by fund managers as they continue to navigate the murky investment waters. However, the best-in-class fund managers will be adaptive and creative as they weather the uncertain investment landscape, directing greater focus on growth and value creation within their portfolio companies while simultaneously capturing opportunities aligned with the current market conditions.

Africa in The Global Context: Slowdown in Private Capital Investments Across All Regions

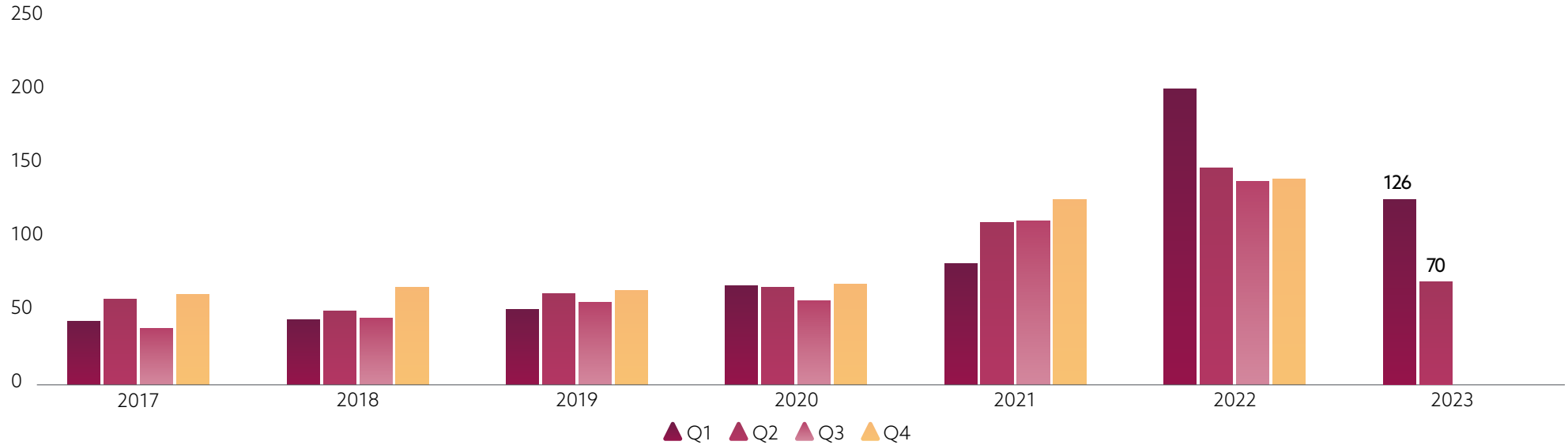
Figure 1: Percentage change of Private Capital Deal Volume and Value between H1 2022 and H1 2023



Source: AVCA, Pitchbook

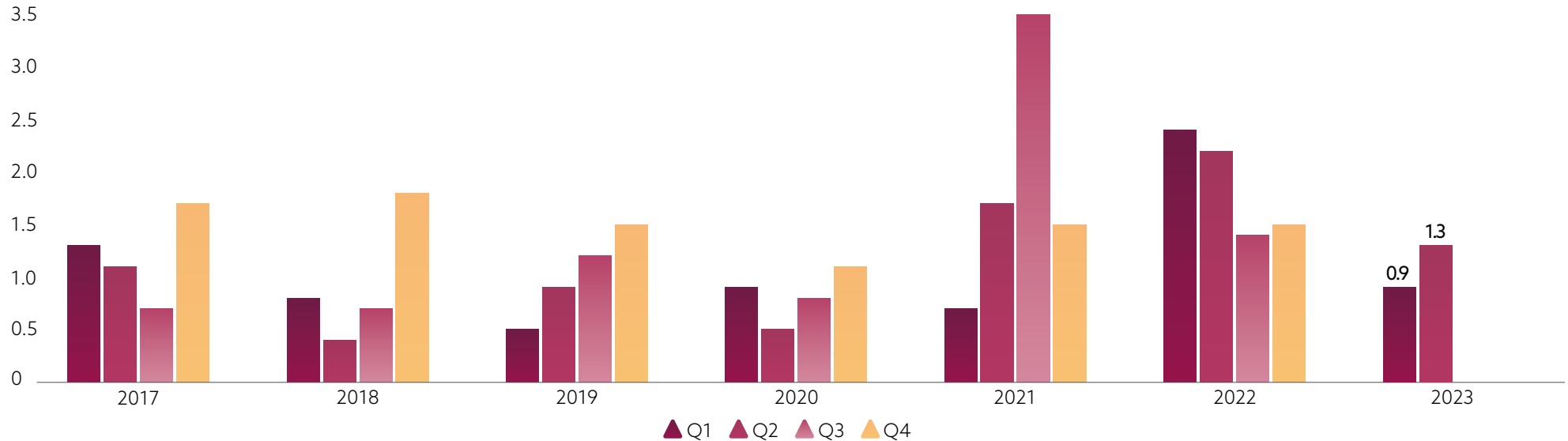
Private Capital Investment Activity Slumps After a Strong Year

Figure 2: Total Volume of Private Capital Deals in Africa, by Year and Quarter



Source: AVCA

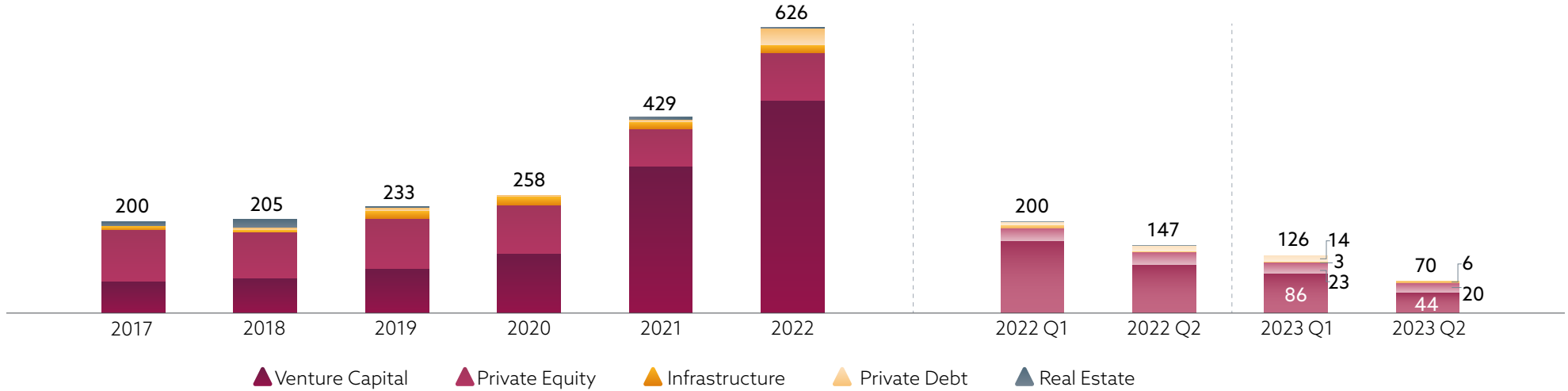
Figure 3: Total Value of Private Capital Deals in Africa, by Year and Quarter, US\$bn



Source: AVCA

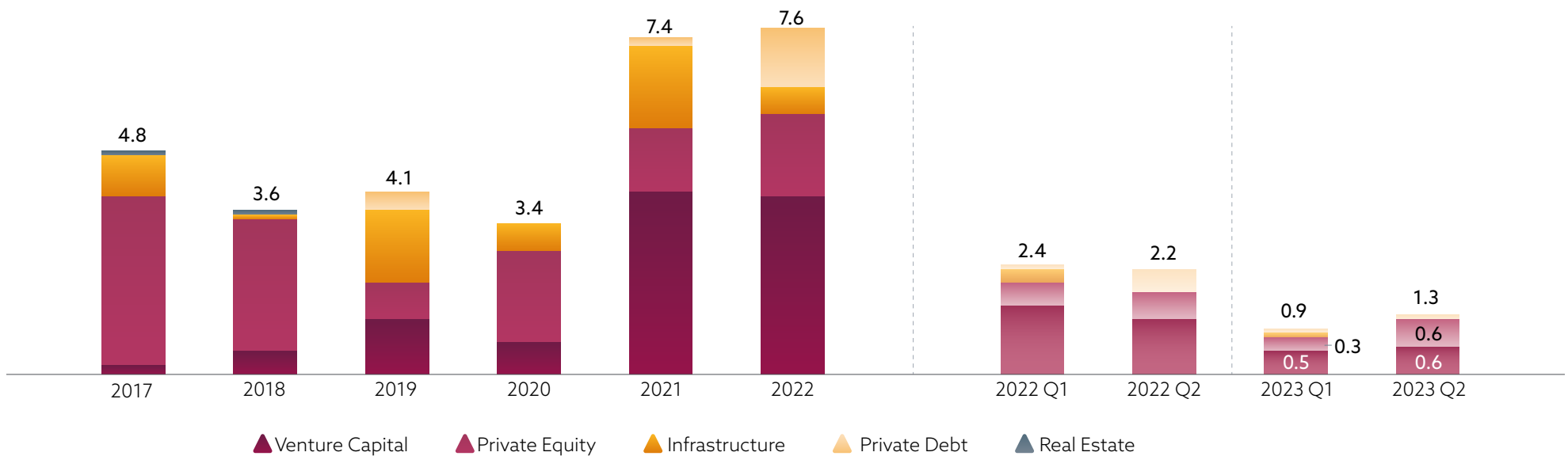
Private Debt Remains Resilient Amidst Drop in Venture Capital

Figure 4: Total Volume of Private Capital Deals in Africa, by Year & Asset class



Source: AVCA

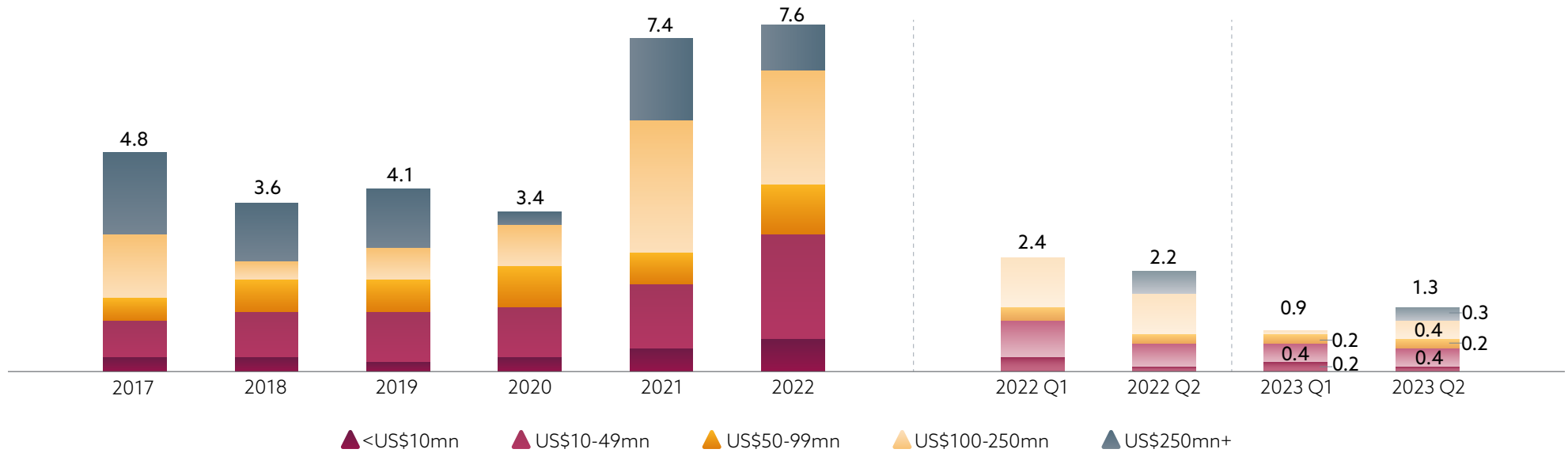
Figure 5: Total Value of Private Capital Deals in Africa, by Year & Asset class, US\$bn



Source: AVCA

Investors Retreat from Larger Deal Size

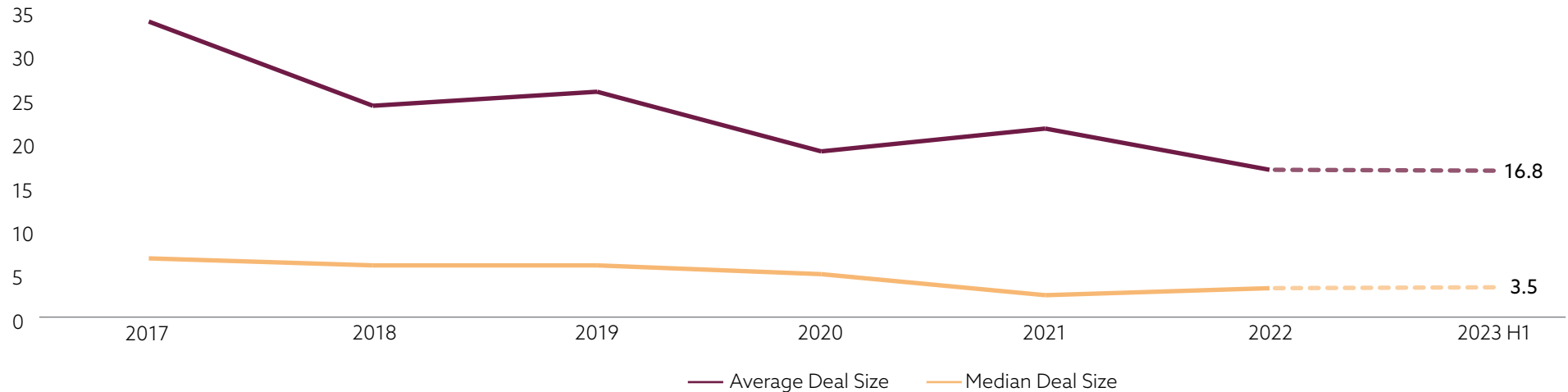
Figure 6: Total Value of Private Capital Deals in Africa, by Year & Ticket Size, US\$bn



Source: AVCA

Average and Median Deal Sizes Maintain Stability

Figure 7: Evolution of Average and Median Deal Size in Africa, by Year, US\$mn

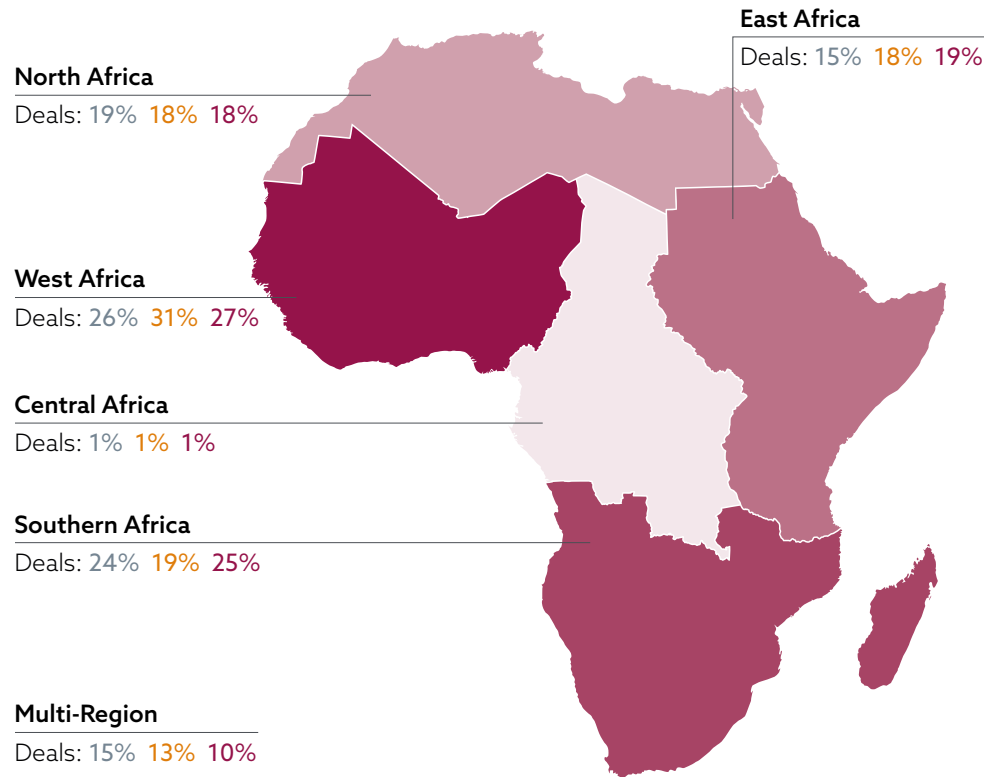


Source: AVCA

Southern Africa Remains Relatively Resilient Despite Sharp Decline Across Other Regions

Figure 8: Share of Volume of Private Capital Deals in Africa, by Region, 2017 – 2023 H1

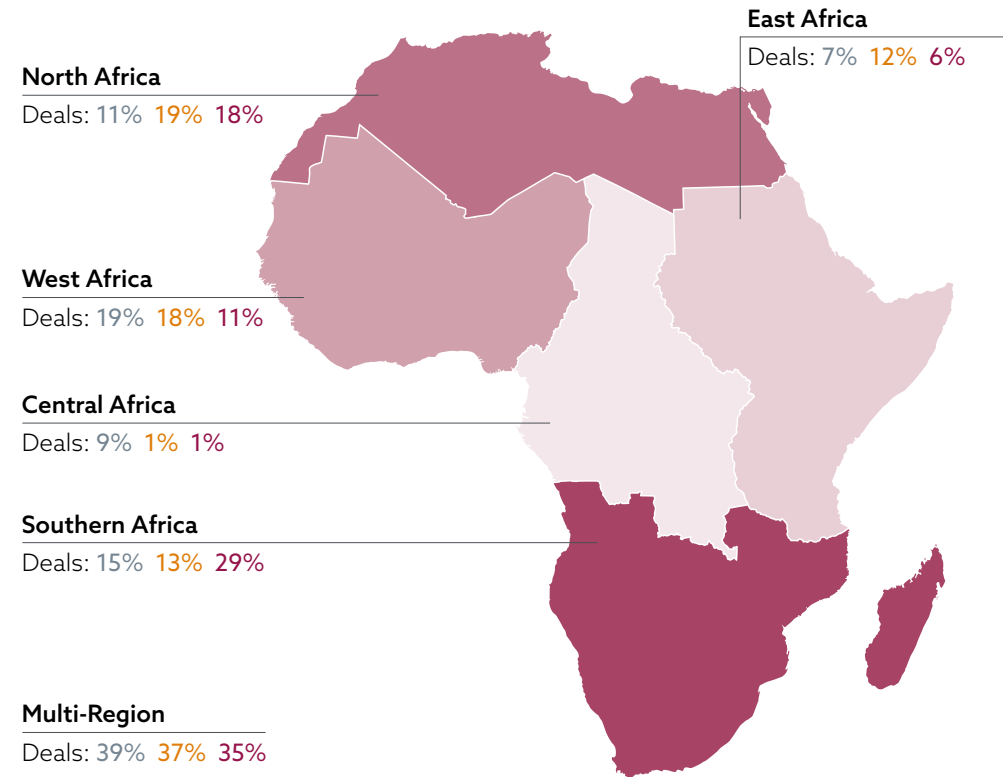
▲ Av. 2017-2021 ▲ 2022 ▲ 2023 H1



Source: AVCA

Figure 9: Share of Value of Private Capital Deals in Africa, by Region, 2017 – 2023 H1

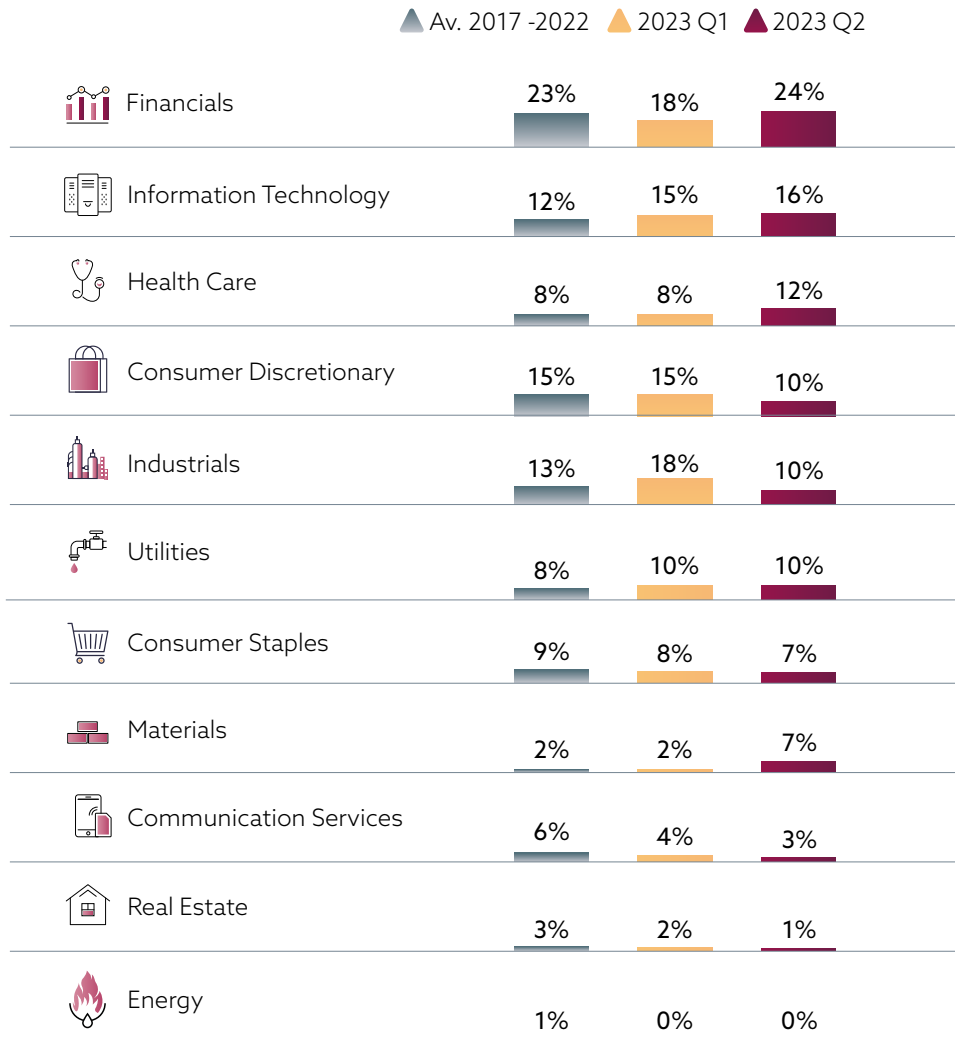
▲ Av. 2017-2021 ▲ 2022 ▲ 2023 H1



Source: AVCA

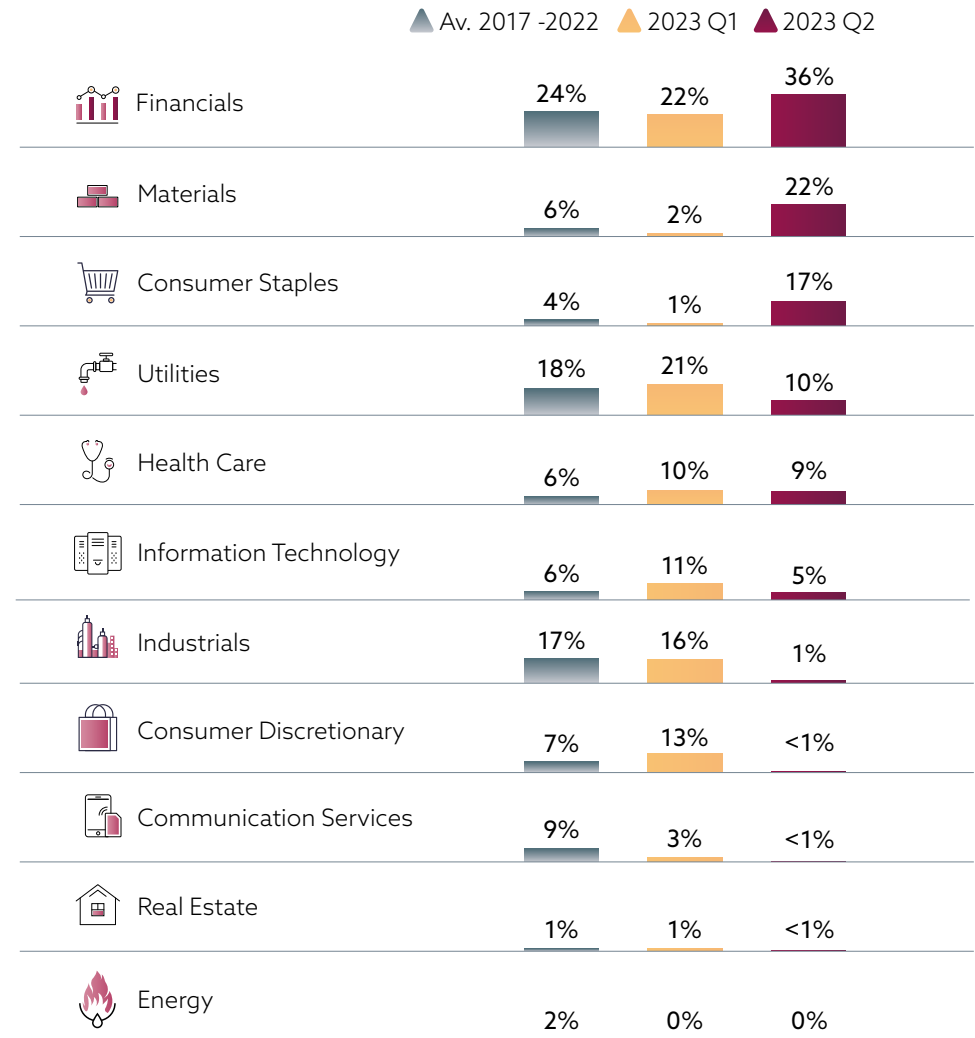
Financials Continue Dominance While Materials and Consumer Staples Show Fortitude

Figure 10: Total Volume of Private Capital Deals in Africa, by Sector, 2017-2023 H1



Source: AVCA

Figure 11: Total Value of Private Capital Deals in Africa, by Sector, 2017-2023 H1

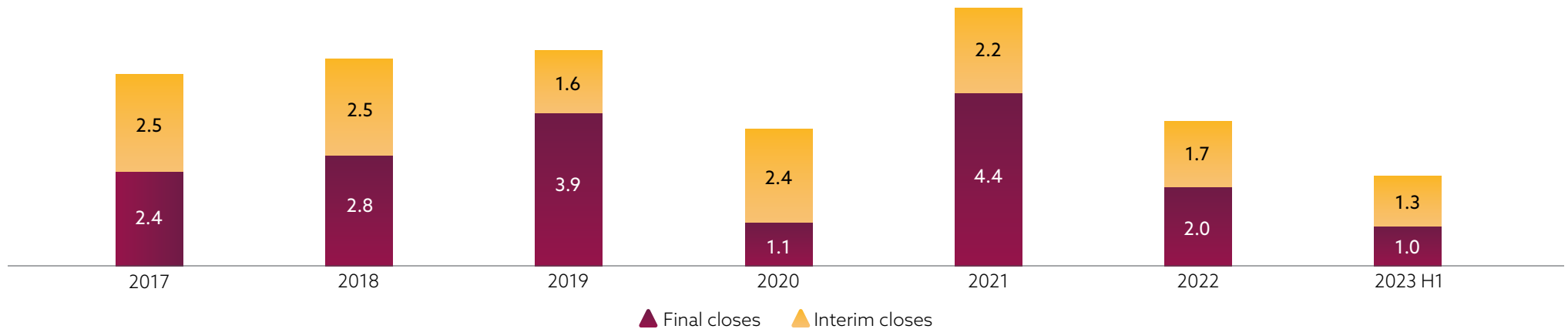


Source: AVCA

FUNDRAISING

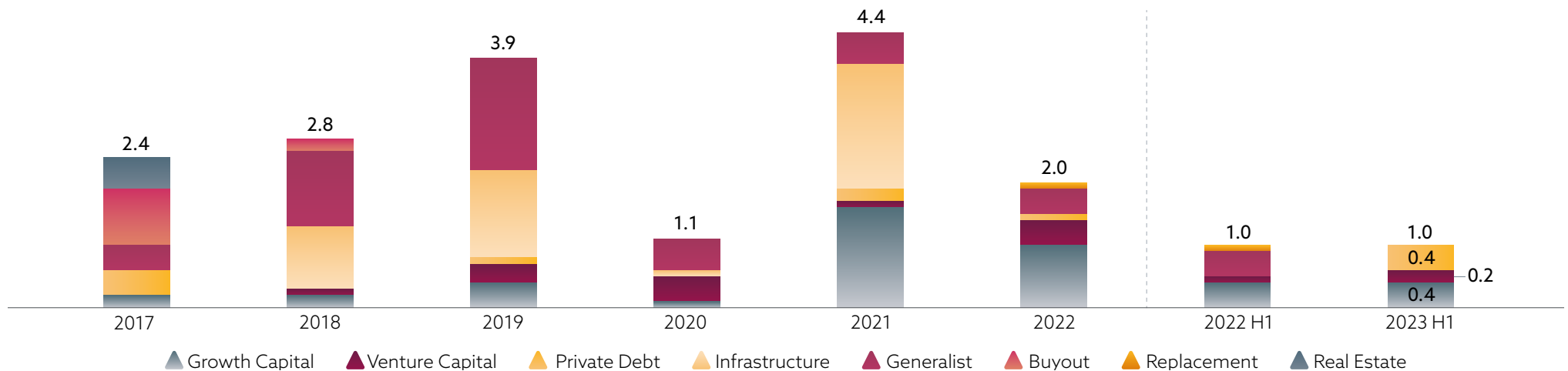
Fundraising on Track to Achieve 2022 Levels, While Private Debt Gains Momentum

Figure 1: Total Value of African Private Capital Fundraising, by Type of Closing & Year, US\$bn



Source: AVCA

Figure 2: Total Value of African Private Capital Fundraising, by Fund Stage Focus & Year of Final close, US\$bn

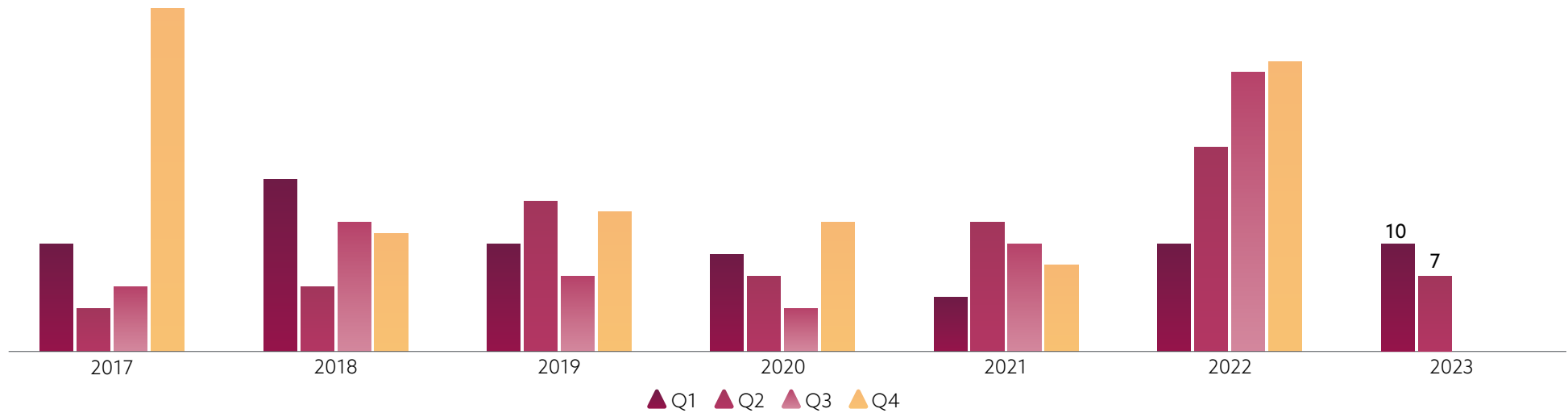


Source: AVCA

EXITS

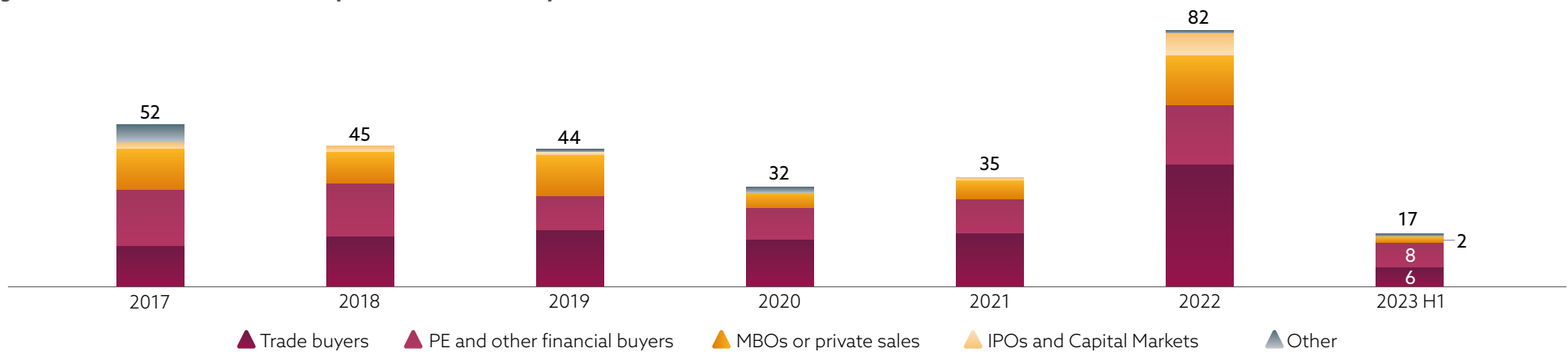
H1 2023 Experiences Dip in Exit Activity After Striking Year

Figure 1: Total Volume of Private Capital Exits in Africa, by Year and Quarter



Source: AVCA

Figure 2: Total Volume of Private Capital Exits in Africa, by Exit Routes & Year



Source: AVCA

Research Methodology

This report maintains the same methodology used in the full year AVCA African Private Capital Activity Report. A detailed overview of the Research Methodology used can be accessed [here](#) on page 11.



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Championing Private Investment in Africa

The African Private Capital Association is the pan-African industry body which promotes and enables private investment in Africa.

AVCA plays an important role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research, best practice training programmes and exceptional networking opportunities.

With a global and growing member base, AVCA members span private equity and venture capital firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations.

This diverse membership is united by a common purpose: to be part of the Africa growth story.