



DOING TRANSACTIONS

THE ROLE OF INTERMEDIARIES IN BOLSTERING INVESTMENT INTO THE AFRICAN ECONOMY IN THE WAKE OF COVID-19 WOULD HINGE ON VALUE - ADDING TRANSACTIONS

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Although the COVID-19 pandemic has affected the lives of millions of people across sub-Saharan Africa (SSA), the region's untapped potential for economic growth remains clear. Prior to the global pandemic, Africa was attracting increasing amounts of foreign direct investment (FDI) with a compound annual growth rate of 8.5% between 2000-2019 with a total inflow of about USD 45.4 billion in 2019. While there has been a dip in FDI and other forms of investments into SSA due to the pandemic, Africa has come out much less economically impacted than was anticipated in early 2020. Analysts at DFS Africa are projecting that there will be growth in investor interest in Pharma, Commodities, Agro Processing and Manufacturing because of the demand expected to come out of the African Continental Free Trade Area (AfCFTA).

The World Bank estimates that the AfCFTA will connect 1.3 billion people across 55 countries with a combined gross domestic product (GDP) valued at US\$3.4 trillion. This has the potential to lift 30 million people out of extreme poverty depending on putting in place significant policy reforms and trade facilitation measures.

While opportunities abound, getting deals done in Sub-Saharan Africa is costly and time consuming mostly due to infrastructure challenges, small ticket sizes, non-availability of verifiable data and poor governance structure. While this prevents African companies from attracting foreign investments, it also limits the breadth of transactions possible, as most companies depend on local banks or internally generated funds to scale.

We know many local businesses are hesitant to pay intermediaries, and rightly so, some intermediaries simply want a 'cut' of funds raised or charge huge upfront fees without considering the sustainability of the financial instrument deployed into the business. African businesses must seek out advisory companies whose facilitation approach includes credibility, trust, mission alignment of the businesses with investors, a team based in the local market with the requisite skills to support their businesses and investor engagement across the deal lifecycle.

Over the last 5-years of working on transactions in SSA, DFS Africa has innovatively originated transactions that go beyond just commercial lending and created value even beyond the deal. We have identified ways by which transactions can be done quicker, costs reduced, and risks minimised acting as advisors with deep local market knowledge, coupled with niche industry understanding and

Africa's Foreign Direct Investment (FDI) prior to the global pandemic



8.5%
compound annual
growth rate between
2000-2019

\$45.4b
total inflow in
2019

Combined Gross Domestic Product (GDP) valued at US\$3.4 trillion



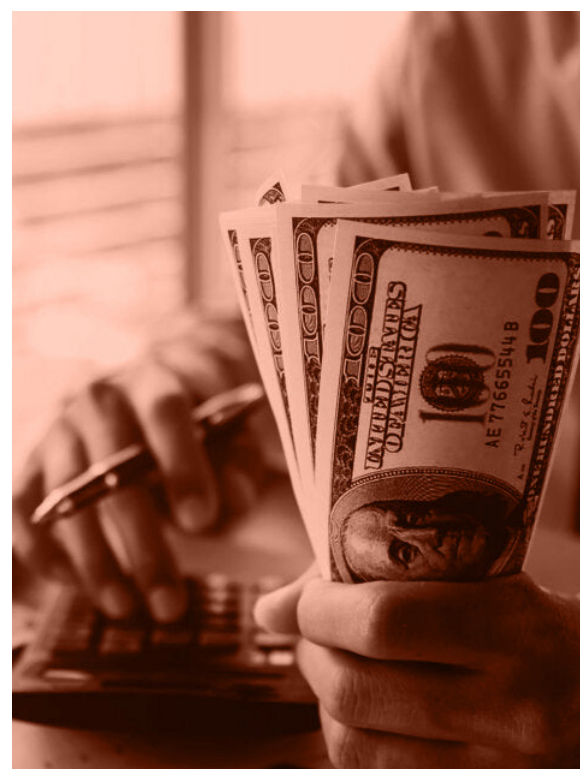
1.3b
people



55
countries



30m
People potentially lifted
out of extreme poverty



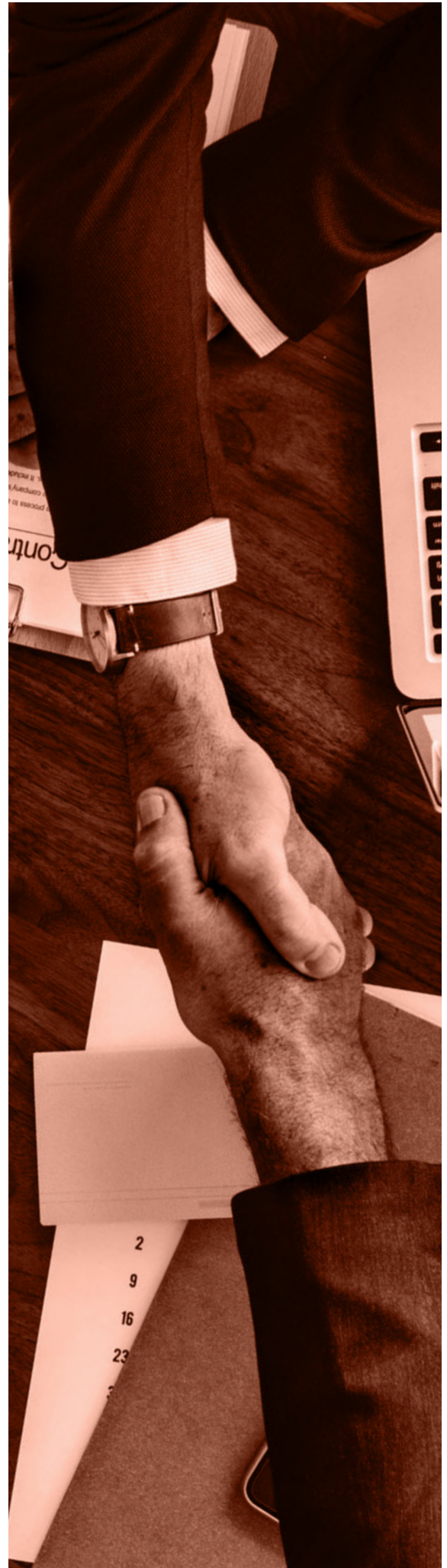
competent understanding of varied transactions including but not limited to mergers, acquisitions, private equity/debt transactions, thus reducing information asymmetries and improving trust between investors and businesses.

Our experience over the past year indicates that investment advisory during the COVID-19 pandemic created a bridge between new funding vehicles and businesses that needed the capital. While impact investors and development finance institutions have created pools of capital to provide liquidity to businesses in developing markets, the barriers to deploying investment funds are higher than ever. At DFS Africa, through our existing investment advisory mandates, we have provided the much-needed bandwidth and advisory support to businesses and investors so they can renegotiate their existing obligations, while raising additional capital to get them through the current economic climate. At this crucial time when most economies are shrinking and some are attempting to come out of the worst pandemic in a generation, having trusted advisors is critical.

Transaction advisory, to us, is all about helping organizations **evaluate and navigate** their **corporate transactions** ensuring that **value** is always enhanced. Three keywords stand out on how we define this offering: **evaluation and navigation, corporate transactions**, and **value**.

Evaluation and Navigation – At DFS Africa the focus is not only to respond to bids or operational demands that lead to sales, but also to constantly evaluate the market for opportunities that increase the value of the company, frame the opportunity, and support navigation throughout the deal lifecycle. We leverage our industry insights by using data and analytics to offer best in class services. Our retainer engagement model ensures we champion client's strategy sessions, devise corporate strategies together and implement mutually agreed growth strategies on our clients' behalf. This means our frame of thought about our client's business is always beyond a single transaction; we analyze the client's business before suggesting transactions and would be there all through the process of integration of new ventures, new products, or new markets.

While the need for transaction advisory seems obvious based on the benefits discussed above, three main developments seem to always 'gang up' against corporations thus preventing them from seeking professional help when it comes to transaction advisory. While these developments



are global, they are exceptionally more acute in Africa, the region DFS Africa prioritizes because of its enhanced development reach, making the need more critical despite the acute barriers. The developments are:

1. Increased demand of operational needs sapping time for strategic thinking
2. Poor and unsophisticated financial markets
3. Poor records and a patchy use of certified accountants/ auditors

DFS Africa takes the pressure off our clients by making sure that clients can focus on their business while we craft their growth strategies and raise funds to make the clients project a reality while keeping you informed about the changing environment around you.

Corporate Transactions – We just don't think there are enough transactions done on the continent. Transactions that aim to improve profit margins and increase sales only are not optimizing value. With an eye on optimized capital structure, value can be derived from mergers, acquisitions, takeovers, disposals, spin offs, demergers, scheme of arrangement and many other cocktails of horizontal and vertical integrations. While the list above seems exhaustive, we have not spoken about other broad ranges of transactions that involve private equity and even resident liquidity pools on various stock exchanges on the continent.

DFS Africa is keen to prod our clients to leverage our financial, commercial, and operational expertise with data driven insights to create value across the stages of the deal lifecycle. We offer free deep-dive sessions for fine tuning project structure and supply the data required to provide possible value-adding transactions that increase market access, liquidity pools access and even increased market shares in established markets.

Value – The resident center is a concept known to most brooding animals, a communal feeling that if a little is reserved for the center, the center will come good in times of lack. This must be the approach to corporate existence on the continent. How do we minimize the effect of adverse selection, moral hazard, agent – principal issues, value destroying transactions originating from information asymmetries and still leverage on the various sources of scalable capital out there.



At DFS Africa, we go beyond the deal, It's all about value. We provide in-depth analysis of various financial decisions ensuring their effectiveness and fairness. Does it add value? Is value well defined and mutually agreed?

Having defined what transaction advisory is to us and emphasized the three keywords that make our practice of immense importance to the African continent, our approach leverages working with a team of specialists from varied disciplines to help clients manage and execute high-profile transactions. We bring analytical skills and real-world experience to diverse situations and unique problems. By appreciating our clients' overall objectives and understanding how transactions can influence their organization's success, our approach hinges on assessing and navigating risks, always balancing these against potential rewards.

This well-structured approach bodes us well in supporting a diverse range of valuation engagements for M&A transactions, corporate finance transactions, restructuring projects, fund-raising transactions, private equity transactions, quoted equity transactions and capital-intensive projects via our range of services, including but not limited to Sell side/buy-side due diligence, Valuation/Modelling, Corporate Governance Review, Accessing the Capital Markets, and pipeline curation.

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