One year on: How has Covid-19 impacted private equity in Africa?

By Bryan Turner

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Over the past year or so, we've all become familiar with a whole host of terms we knew nothing about at the start of 2020. Lockdown, rate of transmission, and social distancing all entered our collective vocabularies. At the same time, we had to get used to new ways of working and doing business.

Bryan Turner, partner, Spear Capital

That's as true for private equity (PE) as it is for any other sphere of business. And, initially, it looked like the economic devastation wrought by Covid-19 would hit African PE activity particularly hard. In the first half of 2020, the value of private equity deals on the continent was on pace for a 63% drop compared to 2019. The final figure may have been even worse, underlining how disruptive the pandemic has been.

Even as the mass rollout of vaccines around the globe brings a glimmer of hope that life may return to some semblance of normal, it's likely that the conditions of 2020 will be with us for some time to come. It's therefore imperative that private equity firms, their investors, and the firms they fund use the lessons of 2020 to inform their approach going forward.

The difficulties

One major difficulty for PE investors, especially when lockdowns were at their hardest, was the inability to get onsite and visit businesses that had investment potential. A company might look great on paper, but you get a much better feel for its viability by visiting the premises and seeing how it operates on a day-to-day basis.

As a result, deals may be delayed (in the hopes that an on-site visit will be possible at some point) or even fall through. This may become less of a problem as travel restrictions are lifted but, for now, everyone needs to find ways around the problem.

For companies looking for investment, having all their documentation in order can go a long way when it comes to easing the due diligence process. That's important, because a lot more companies are looking for investment as they try to make it through the current economically trying times.

Our investors also expect us to have boots on the ground when it comes to getting the best possible idea of a company's viability, so it's up to us to demonstrate that we've gone beyond documentation for the moment. In the longer term, smart PE investors will go back to performing on-site visits as soon as possible.

This is especially important in sub-Saharan Africa, where doing business can sometimes be difficult. As a rule of thumb, the more difficult a market is to do business in, the more time you need to spend in that market.

New ways of doing business

That said, there have been adaptations that we could benefit from carrying forward post-pandemic.

Being able to meet with people virtually, for example, has made it easier to maintain more regular contact with the companies in our portfolio. That, in turn, means we can make more agile decisions.

As economies around the globe recover, that adaptability will only become more important for PE investors and companies looking to remain relevant.

The fundamentals don't change

Despite the massive ructions of 2020, there are still some fundamentals that haven't changed. Certain industry trends may have changed but, in most cases, a good business with a good leadership team remains a good investment. Private equity funds and their investors would do well not to get caught up in a panic and take a long-term view of the companies in their portfolios.

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