Catalyst

SA's quarterly Private Equity & Venture Capital magazine

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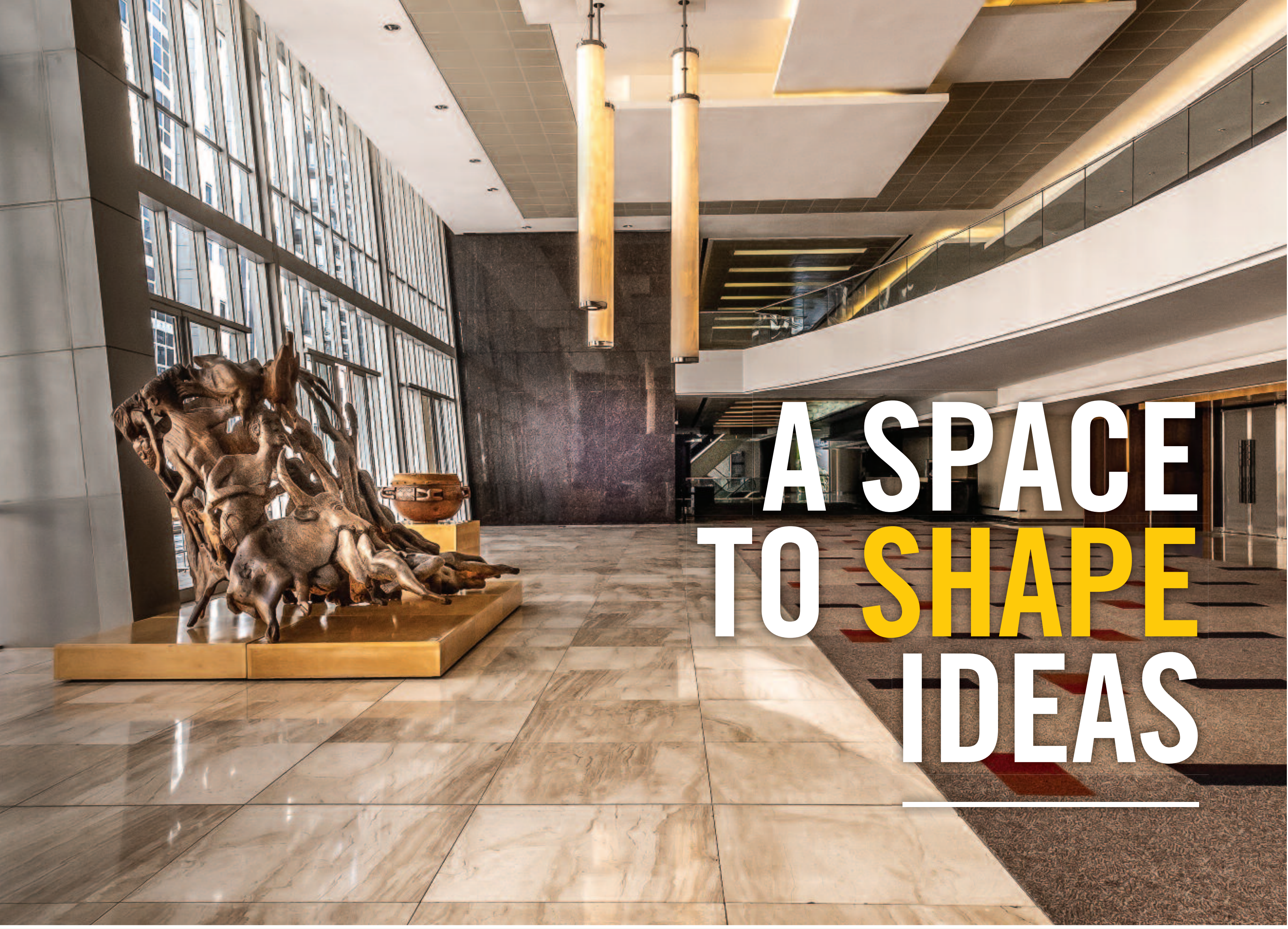
Ketso Gordhan: The man trying to scale VC in SA

DBSA provides infrastructure hope

Biotech revolution



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FROM THE EDITOR'S DESK

"In all our lives, a thumbnail of opportunity presents itself. Most of us tend to walk past it or ignore it. It happens serendipitously; a chance meeting, a lunch, a late-night discussion with friends where someone mentions an invention and everybody goes 'Wow, that could be game-changing' and nobody does anything about it."

"Be conscious and recognise those moments of opportunity around you. Act on them, really act on them."

This is sage advice expressed by globally successful South African born entrepreneur, David Frankel, in a Harvard Business School profile article. Frankel is managing partner and co-founder of Founder Collective, a seed-stage venture capital fund with offices in San Francisco and Boston.

A similar opportunity presents itself for the South African private equity and venture capital industry as President Cyril Ramaphosa's government is making a firm break with the past by focusing on how it can catalyse the local ecosystem.

Yes, the recent Medium-Term Budget Policy Statement was a cold shower for those in business still backing the President to reform the state; Eskom's cancerous balance sheet still threatens the broader economy as Treasury stares down Eskom executive management before providing any more assistance. But the signs are there for anyone who bothers to read the tea leaves of policy intent and recent action.

The partnership between the SA SME Fund and the Technology Innovation Agency (Page 3) and the haste with which the Development Bank of Southern Africa is working to bring bankable infrastructure projects to the market are signs that this administration is much more serious than anything seen during the disastrous Zuma years. And frankly, it must move much faster.

But beneath the gloomy headlines and sobering fiscal decline, there lurks an opportunity for the astute dealmaker to capitalise on. The reality that government has run out of fiscal road, offers a far more realistic new dawn, one that government cannot dig itself out of alone.

That is, if Cyril can be the man who ensures that labour walks away from the table feeling like it has won something. For the trade unions remain by far and away the President's largest obstacle to unlocking the reform potential outlined in the Finance Minister's economic paper.

The clock is ticking. ◆

Michael Avery

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The collapse in three sub-indices of the Absa Purchasing Managers' Index (PMI) in September - business activity, new sales orders and inventory - drove it to a ten-year low of 41.6. This level is far below the 50-point mark which indicates contraction, and the average reading for the first nine months of this year has been the weakest since 2009.

Economy weighing on deal activity

Andrew Bahlmann

While this index measures activity in the manufacturing sector, when coupled with other data points, it shows a stuttering economy. Of concern is that the Absa PMI, tracking business conditions in six months' time – which would be a good indicator of confidence in the manufacturing sector – declined for a fourth month in a row.

Andrew Bahlmann

You may recall that the SACCI business confidence index fell to 89.1 in August – the lowest since August 1985 – a release that spooked markets. The index rebounded to 92.4 in September, above expectations, but still at depressed levels. It is hard to find positive economic data at the moment, and that is weighing on sentiment.

A further trend emerging is that the acquisition market is being dominated by private equity.

In our own business, the biggest concern is that we are seeing a slowdown of international interest in certain industries. This is being countered by high levels of international demand and traction for South African business in the ICT and fintech space. Amongst our clients, we see a significant amount of confidence and strong financial results in these industries. It is not uncommon to see triple-digit growth rates in fintech, in particular.

That said, our larger clients – those with turnovers in excess of R100m and strong net asset value – seem to be thriving in this economy. These well-performing businesses exist in many industries; they are not just limited to fintech or ICT.

Given both their scale and excellent management teams, they are able to successfully weather the economic pressure. In doing so, they are outlasting smaller and weaker businesses that simply do not have the balance sheet and reserves to trade through these conditions. The larger businesses are understandably capitalising on this, either by buying distressed businesses or by taking market share (or both).

While there are still transactions lined up, lenders and funders are making it very difficult to enable these to conclude. Financial acquirers are even more prudent and risk averse than they were a few months ago (if that is even possible!).

A critical factor affecting transactions is that a not-insignificant minority – around 15% – have experienced a drop in financial performance during the transaction process. This is clearly making it difficult to conclude these deals on their original terms, and is requiring innovative structures to get the deals across the line.

A further trend emerging is that the acquisition market is being dominated by private equity. Financial results from the larger listed players confirms this, as the bulk of these companies have stated unequivocally that they are now in an investment phase. RMB, for example, says its "private equity businesses are now in an investment cycle, with R4.6bn invested over the past three years". Ethos Capital describes its last year as a "very active" one on the investment front. It acquired or invested in seven assets. However, it cautions that there is "unlikely to be any short-term improvement in business confidence and corporate investment" – a stark warning from a large player. It says its investment pipeline "remains strong but given the market conditions and lack of competition, the focus remains on being extremely selective on deals".

With depressed asset prices, this should not be a surprise. The flipside to this coin is that trade players do not seem to be investing as they did in the past.

Looking ahead, while the statement following the ANC's National Executive Committee meeting at the end of September has been perceived as broadly positive, it contained very few new items or positions. All these policies boil down to implementation and, worryingly, business sentiment will not improve until we see some action. One positive is that Finance Minister Tito Mboweni seems to have made significant headway in selling his economic policy paper, 'Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa', to the party.

But, there is a more complex set of factors than just local economic ones influencing sentiment. We cannot discount the trade war simmering between China and the US, as well as the turmoil surrounding Brexit which has seen a mood of caution sweep the markets. The World Trade Organization (WTO) in September cut its growth forecast for global trade in 2019 to the lowest level in a decade. In a report, the WTO said trade volumes would increase by 1.2% this year and 2.7% in 2020; this after growth of 3% in 2018.

Investor confidence in South Africa can and will return. Progress has been slow, but the administration of President Cyril Rampahosa has been quietly rebuilding a broken state. Certainty on long-awaited matters, such as the integrated resource plan in the energy sector, and stability at large, troubled state-owned enterprises will go some way to helping restore confidence. And with that will come an uptick in international interest. ◆

Bahlmann is MD of Deal Leaders Africa, a Boutique M&A

The growing impatience with South African President Cyril Ramaphosa's economic reform programme was best encapsulated by the Economist (*Somewhere over the rainbow – the need for speed, 19 October 2019)* which pointed to the slow progress on relatively easy reforms, but also to the blueprint offered by maverick Finance Minister Tito Mboweni, who is determined to "shake the baobab tree" to get growth going again.

Venturing into the new dawn

One of the key components of Tito's Plan, as it has been dubbed, (*Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa – prepared by Economic Policy, National Treasury*) is to power productivity growth and improve competitiveness by harnessing the power of the country's nascent tech sector.

The plan observes that, "[t]he only way to effectively increase economic growth in the long term is through improvements in productivity. Investment in innovation is one of the major drivers of productivity growth."

Ketso Gordhan

Mention state involvement in the economy and the images of Eskom and failed monopolies in transport and telecoms send frissons of fear down one's spine.

But there is a vitally important role for the state to play in the venture capital space.

The thinking in President Ramaphosa's and Minister Mboweni's approach can best be found in the ideas of one of the president's recently appointed key economic advisers, Mariana Mazzucato, Professor in the Economics of Innovation and Public Value at University College London (UCL), and Founder/Director of UCL's Institute for Innovation and Public Purpose.

"The conventional view in mainstream economics today is that governments have little capacity to spark innovation," writes Mazzucato in a 2015 article published by the World Economic Forum (*What is government's role in sparking innovation?)*

"The state should play as limited a role in the economy as possible, the thinking goes, intervening only in cases of "market failure." This is far from the truth.

"In Silicon Valley, for example, the US government acted as a strategic investor through a decentralized network of public institutions: The Defense Advanced Research Projects Agency, NASA, the Small Business Innovation Research program (SBIR), and the National Science Foundation."

It's an idea that resonates with the CEO of the SA SME Fund, Ketso Gordhan.

"All successful innovative nations have had their governments playing a catalytic role," says Gordhan. "Wherever you look at it, governments have put up the first money, taken the first loss or leveraged private sector money by capping the returns that it required on its money. We've seen various models, but the essential point is whether government is willing to put up money, either as a first loss, or taking a lower return than the private sector. In South Africa, unfortunately, we have not seen that yet and one of the things that I hope the SA SME fund can show, by leading through example, is that here's the private sector, doing many of the things a government department should be doing, and it offers a perfect opportunity for government to create a public private partnership, leveraging what the SA SME Fund is already doing."

Gordhan relays his hopes that in the coming months, the SA SME fund can interact with government and persuade the leadership that it is a relatively experienced partner, and not the only partner it could choose to work with, to get the innovation system moving a lot more swiftly than it is.

Gordhan, who was campaign manager for the Mandela election, has developed his career in private equity inside the CDC, was CEO of PPC, and is now the CEO of the SA SME Fund.

The Fund is doing some exciting proof of concept-type deal structuring which could potentially become a blueprint for the sort of future public-private partnerships that Gordhan alludes to.

In September, the SA SME Fund announced a partnership with the Department of Science and Technology's Technology Innovation Agency (TIA). The two will invest R236-million together in two new funds — R83,5m in a new biotech fund called OneBio Seed Investment Fund, and R152,5m in the University Technology Fund.

"We've done enough talking," says Gordhan in a manner that says he means business. "We all have a sense of what is important and what needs to get done, and so the SA SME fund has prioritised seeding, and getting off the ground, a number of first time funds that are trying to do new and innovative things.

"The University Tech Fund is trying to do something that most of the rest of the world already does really well, which is commercialise the IP coming out of our universities. We are doing it in partnership with the Universities and TIA and we hope that we are able to, over the coming year, crowd a number of other private and public investors into this fund."

"The second fund (OneBio) is one which sees quite an important change in the way venture capital is emerging in the rest of the world. Five or ten years ago, it was all about tech, then it became a mixture of tech and other things, but today probably one of the biggest recipients of venture capital money around the world is biotech. We have, together with TIA, put together a first-time small biotech fund that can get the ball rolling."

Although these funds are small, Gordhan sees them as catalytic, and setting an example for other investors to support these kinds of initiatives in the near future.

Gordhan has operated for many years in the private equity and impact investing space. His positions and roles have included Head of Private Equity at FirstRand for almost a decade; managing a personal impact investment portfolio with a focus on education in SA and Rwanda; serving as Africa advisor to the Omidyar Network; and Head of Africa for the Commonwealth Development Corporation where he led the Africa investment strategy for the UK government's development finance arm. This experience has influenced the model of the SA SME Fund, which essentially, takes a venture capital "fund of funds" approach.

By the end of the year, the SA SME Fund would have completed seven funds.

"Two existing funds that we are deepening, and now five first-time funds," explains Gordhan. "For any ecosystem in the VC space, for the size of our country to begin to have any measurable impact, we probably need about 30 or 40 funds. So the ideal model would be: the SA SME fund raises money, government gears up that money, and we do another 10. But at the same time, create a competitor to the SA SME fund who can do another five. And over a five to seven-year period we can get to an optimal number of venture capital funds to service the size of the market we have."

Mazuccato believes that recognising the importance of government investment in promoting innovation and growth implies the need to rethink the conventional wisdom about state intervention.

"Instead of focusing on picking individual technologies or firms, public organizations should act like investors, betting on a diversified "portfolio" of choices.

"Like any other investor, the state will not always succeed. In fact, failure is more likely because government agencies often invest in the areas of highest uncertainty, where private capital is reluctant to enter. This means that public organizations must be capable of taking chances and learning from trial and error.

"If failure is an unavoidable part of the innovation game, and if government is crucial for innovation, society must be more tolerant of "government failure." But the reality is that when government fails, there is public outcry – and silence when it succeeds. How do we change this?"

Gordhan says that governments are willing to lose money and make the high-risk decisions and they can mitigate many of those risks.

"In South Africa, we have a private sector that is willing to partner with government. Originally the SA SME fund was meant to be a 50/50 partnership with the private sector and it's a real pity that that didn't materialise, but maybe in the next iteration we could do that. Government is willing to lose some of its money and, as you say, we get a 10 to 15% success rate; those things typically cover the cost of capital. You might not make a huge return, but at least you would have given a huge impact to the innovation system as a country." ◆

In 2001, then US president Bill Clinton, alongside then British prime minister, Tony Blair, pronounced that we are "learning the language in which God created life." Scientists had just mapped out the human genome, dissecting the complex science of biological being to code sequences of A, C, G and T in a style similar to binary computer code.

The seeds of disruption

But almost 20 years later, science has surpassed this once-unimaginable feat with the discovery of technology which can alter that genetic code. CRISPR-Cas9.

There is an unbelievable new series on Netflix, titled *Unnatural Selection*, which documents the rise of so-called biohackers who are seeking to democratise access to the gene editing technology. It is at once revealing of how far this technology has come in a relatively short space of time, and frightening for its possible implications for the planet and the human race, as it explores the various forms of genetic engineering, as well as the societal and environmental implications of its research and use.

South Africa has been a relatively late bloomer in the rapidly advancing world of biotechnology, despite having an abundance of indigenous knowledge and a sizeable asset base in the form of fauna and flora.

But that could be changing with the news that the SA SME Fund, in partnership with the state-run Technology Innovation Agency, will provide R83,5m to the OneBio Seed Investment Fund.

OneBio is South Africa's only biotech specific VC fund, and aims to provide biotech startups with the funding, networks and strategic assistance to take their science from bench-top to the world.

Catalyst caught up with co-founder Dr Nick Walker, to talk about the biotech ecosystem in the country.

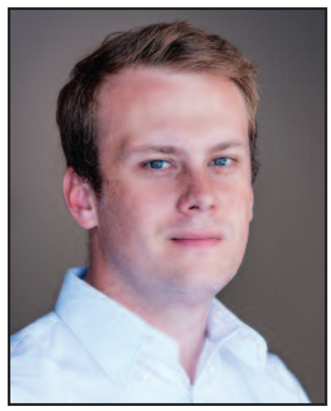
Walker found his way into the field through a scientific family, which eventually culminated in a PhD in Stem Cell Biology from the University of KwaZulu-Natal.

He made the leap from scientist to entrepreneur with the help of Kim Hulett, the co-founder of Next Biosciences, whom he credits with playing an integral part in his professional development.

"When I finished my PhD, I was fortunate to get a job working with Kim at Next Biosciences and worked there for about two and half years, which were the formative years of my entrepreneurial journey," explains Dr Walker. "There I was dealing with new business and product development which really gave me a sense of what it takes to take a product and develop it and create something commercially viable."

"It taught me that you need a solid problem solution fit. Often the science that gets produced – and this is a symptom around the world – it's great science, but sometimes a solution looking for a problem and that's never a good way to start. What you should look out for is a problem needing a solution and you find the tools in science to do that."

In 2016, Dr Walker won the South African leg of the Singularity University Global Impact Challenge for his concept of gene-editing stem cells to cure HIV/AIDS.


Dr Nick Walker

"At that stage it was just a theory – the scientific possibility of editing the stem cells that are involved in producing the cells that are affected by HIV, and you could produce these stem cells and edit them to be immune to HIV. You edit them to knock out a gene called CCR5 and you could use CRISPR-Cas9 [technology] to do that, and then you could re-infuse these back into the patient with HIV and, essentially, cure them. This theory was based on two patients – the first one called the Berlin patient, and the second, the London patient – who received stem cell transplants from people who naturally had this mutation that allowed their stem cells to be immune from HIV.

"There were challenges with the whole idea, in that HIV is nowadays treated like a chronic disease. There are various treatments, in the form of antiretrovirals, that basically allow someone to live a happy and normal life. And performing such an invasive therapy on someone with HIV is probably not necessary, and the benefit-risk ratio didn't make sense. That idea is a prime example of a solution looking for a problem."

The real problem Walker and his team discovered had less to do with treating HIV than getting people onto existing

"We believe that in South Africa and Africa, that we perform really good research, in fact if you look at the statistics, we in South Africa produce life sciences research on par with many developed nations; we rank 24th in the world, but the translation of that research into products and services that have commercial value is lacking and that comes from a number of different factors that we at OneBio are trying to solve."

treatments early enough, which led to his real breakthrough in the form of an app called Muzi, in collaboration with Argentine software engineer, Agustina Fainguersch.

"Muzi is an app-based, mobile platform that can incentivise people to test and be tested for HIV in a decentralised manner. The platform uses image recognition and AI to read, interpret and validate point of care health screening tests. This improves accuracy of results and creates reliable epidemiology data which will result in disease prediction models. Muzi is currently being run from San Francisco and Johannesburg, with Jaryd Ridgeway taking over the reins in Johannesburg at the end of 2017."

While, up to that point Dr Walker had been involved in fascinating work, as a young scientist he found himself increasingly frustrated by the constant failure of experiments that goes hand in hand with almost all biology-related research.

"I also found the lab quite a lonely place during my PhD, when I was working in relative isolation and a whole day could go by without having to talk to anyone. It works for some people, but I prefer having more interpersonal interactions. I therefore decided to go down the entrepreneurial path, which I find fascinating; the idea of building something that has real-life value to people, that wasn't there before."

In 2018, Dr Walker decided to grow entrepreneurs in his lab instead, and co-founded OneBio Venture Studio with friend and fellow Singularity University Alumni, Michael Fichardt.

Alongside their partners, the Cape Innovation & Technology Initiative (CITI) and the Centre for Proteomic & Genomic Research (CPGR), the team are building OneBio into an African-focused biotech business incubator.

"We believe that, in South Africa and Africa, we do really good research. In fact, if you look at the statistics, we in South Africa produce life sciences research on par with many developed nations; we rank 24th in the world, but the translation of that research into products and services that have commercial value is lacking and that comes from a number of different factors that we, at OneBio, are trying to solve.

Effectively, what Dr Walker and his team are trying to achieve is to find the genes of best practice globally and then splice these into the South African body of scientific endeavour, catalysing an ecosystem revolution.

"If you look, internationally, at some of the centres for life sciences research – Boston and San Francisco – what they've got are support ecosystems that are very strong; independent lab space; and capital that understands biotech – VC's that really understand the phases; smart VC in this space. We hypothesized that these things were lacking, and upon thorough investigation, we did find out that there was no co-working lab space in Africa. Together with our partners, we co-developed BioCityLabs, based in Cape Town. It is Africa's first co-working lab space, and a place that scientists can go in and tinker and create that first prototype outside of a university or research institute, so IP is not going to be an issue and we believe that is one aspect."

The other critical aspect is the question of risk finance.

"The SA SME Fund have been fantastic in supporting us along with the Technology Innovation Agency, and what this [investment] allows us to do is make the type of investments in industries or sectors that we believe are going to be strong in the biotech space; things like food and materials, and these are things that are being invested in heavily in the US and Europe due to what we refer to as the second wave of biotechnology."

Much of this second wave has been sparked by a convergence of three factors, according to Dr Walker.

"The drastic fall in the costs of sequencing the code of life – DNA. We've seen that fall from over US$100m for the human genome [in 2001] to under US$1000 today, which is exciting and has allowed us to play in the space. Then CRISPR-Cas9 allows you to edit [the genome]. Lastly, parallel to this is the rapid development of things like machine-learning. The ability to crunch the data that you read from DNA samples. So, not only can you read the code of life, but you can also understand it, thanks to machine-learning. And once you can understand it, you can make the right changes with technology like CRISPR. We believe these three converge to make biotech super-exciting."

In the African and South African context, the OneBio team sees some potentially game-changing opportunities in genomics, specifically African genomics.

Dr Walker points out that "less than 2% of the world's genomic information comes from Africa, and that needs to change because the keys to unlocking our understanding of things like diseases, come from understanding the genome."

The vision is ambitious: equip start-ups, using biological tools, to solve problems in some of the country's and continent's most wicked problems in healthcare, agriculture and food, with the space and funding to change the future. And the pressure to deliver some early wins will be enormous, but Dr Walker and his team appear up to the challenge. ◆

President Cyril Ramaphosa's R100bn infrastructure fund is still not off the ground but this doesn't mean that nothing has been happening behind the scenes, as Catalyst recently found out from Development Bank of Southern Africa Chief Investment Officer, Paul Currie. The details of the fund will be announced at Government's second Investment Conference.

DBSA ramps up innovative infrastructure finance models

The DBSA has been casting off convention of late, funding youth innovation competitions and, most recently, partnering with the organisers of the SingularityU South Africa Summit, a gathering of future thinkers, entrepreneurs and innovators.

"It almost seems an anomaly that a DFI would be involved with an event like SU which seems so forward-looking and is quite different from a state-owned entity," says Currie, frankly. "But in reality, infrastructure is all about delivering service to the communities and the people of the country, and in our role we need to constantly be aware of what is changing the way that is done. What are the power technologies, health, transport, communications, which are core to our mandate, in terms of the four basic areas that we focus on? One has to be careful as an organisation, and as a country, to avoid entering the realm of stranded assets, and to be sure that our country's infrastructure assets are fit for purpose."

Paul Currie

Currie sees this next wave of technology as a potential game-changer, in that South Africa might be able to leapfrog some of the other infrastructure that many developed countries had to put in place in the past, before the development of the technologies that we are looking at today.

But he cautions that one cannot merely sit on the sidelines and wait for the technology to develop, for risk of being left behind.

"The pace of change is so fast," says Currie, "and the relative costs of the technologies are changing so fast. The scary fact is that we need to put a peg in the ground at some point, and only once we've done that will we be able to determine where those costs will settle. And arguably, we need to do it continually so that we get the benefit of the curve as the technology develops, rather than waiting for the Nirvana point, somewhere at the end, which is never going to happen. We've just seen technology exponentially improve over the last couple of decades."

But where is South Africa on the road to delivering the President's promised Infrastructure Fund? At its September 2018 announcement, Ramaphosa said the fund will fundamentally transform the State's approach to infrastructure projects.

"The Infrastructure Fund is due to reduce the current fragmentation of infrastructure spend and ensure more efficient and effective use of resources," he said.

"There is enormous pressure for us to get this economy moving again, and one of the key factors in order to do that is the implementation of scalable and significant levels of infrastructure investment. There is potential to kickstart a virtuous cycle if we can get sufficient programmatic and/or mega projects up and running. They have an impact on confidence. They have an impact on actual work on the ground, and they provide people with a degree of hope that something is actually happening. I would also add that a lot is going on in the background which hasn't always been visible, but should start to show in the next few months."

Traditionally, infrastructure investments have been financed with public funds. Governments were the main actor in this field, given the inherent "public good" nature of infrastructure and the positive externalities often generated by such facilities. However, public deficits, increased public debt to GDP ratios and, at times, the inability of the public sector to deliver efficient investment spending, have in many economies led to a reduction in the level of public funds allocated to infrastructure.

As a consequence, it is increasingly acknowledged by the likes of the World Bank and the International Monetary Fund (IMF) that alternative sources of financing are needed to support infrastructure development. In this context, much attention is being focused on the institutional investor sector, given the long-term nature of the liabilities for many types of institutional investors and their corresponding need for suitable long-term assets.

The South African government is operating under severe fiscal and capacity constraints, so the big question is how this is going to be funded.

There are two key factors that Currie points to.

"If one looks at this historically, in the South African context, infrastructure risk has largely been assumed by government even if it didn't directly fund it. It would either directly fund it or, to a large extent, take a significant chunk of the risk when there was a middle ground which wasn't really fully developed. Where there are underlying discountable, visible cashflows – and what I mean by that is where there are cash flows that aren't necessarily government-dependent, or are private sector utilisation type fees – those can be discounted. We've seen examples where this has worked quite well."

Currie says that what is absolutely necessary is to actually create this blended finance concept.

"In the past, even where those cashflows existed, they often had to be fully funded by the private sector. In this instance, we've been working for a couple of years now, together with other industry players – the commercial banks directly and through BASA (The Banking Association of SA), as well as through ASISA (The Association of Savings and Investment SA), in terms of the pension funds industry – to look at how we can create this type of blended finance where we co-fund with government capital and private sector investment."

It's quite similar to the inherent discipline and transparency of listed instruments like bonds.

"What we are looking to put together is almost sets of investment instruments which focus on very clear underlying projects, which would allow the investor to rate that project based on their own risk profile and determine how much they would or wouldn't like to invest in, at a price that is determined by the market, which would really become a risk and return price," explains Currie.

"That again would be affected by the extent to which the risk is mitigated by government and hence the blending effect that would take place. And if one does this appropriately, there are all sorts of other benefits that take place. If one talks about the sectors of transport and water, and communications even, there are SDG (Sustainable Development Goal) objectives and external capital that can be drawn into this process too, in mitigation."

"Within this, and swirling around Eskom in particular, climate finance facilities are being spoken about as a possible solution."

"We've already seen the Climate Finance Facility (CFF) that the DBSA has put together, with the Green Climate Fund (GCF) co-financing it to support commercial investors in SDG goals."

The DBSA and the Green Climate Fund (GCF) signed an agreement in August that will kick off a programme to accelerate investments into climate projects and break market barriers in Southern Africa. The agreement seals the GCF's US$56m investment into DBSA's CFF.

The CFF is a first-of-its-kind climate finance facility in Africa, using a pioneering green bank model.

DBSA and GCF's programme will target South Africa, Namibia, Lesotho and eSwatini, but could be replicated in other developing countries to rapidly scale up private sector climate investments.

And Government can play a further role when it comes to risk mitigation, says Currie.

"The traditional approach was always for Government to guarantee the big risks, but in reality, Government should guarantee the risks that the private sector isn't able to take, which is not necessarily the full spectrum but a slice of it."

Currie says another way to do this is to partially guarantee revenue streams or partially fund revenue streams, or alternatively pre-capitalise projects where there is insufficient revenue stream off the back of a project to be able to discount the cashflows fully.

"The student housing programme is a good example where we see probably between 50% and 60% government capitalisation in the exercise."

The SA Investment Conference gets underway as **Catalyst** goes to print, and no doubt the market will eagerly await further details on Government's plan to use the infrastructure fund to help stimulate aggregate demand in the economy. Much work has already been done and, to borrow from the President, the time has come for execution. ◆

Nelson Mandela famously said: "Education is the most powerful weapon which you can use to change the world". It's a weapon which is being embraced with increasing success in the private sector, which has attracted a wave of private equity interest.

Learning to scale

The reason for so much private equity interest in this sector is that it is often non-cyclical (with the exception of corporate training), and provides significant recurring revenue and stable cash flows.

The most recent announcement, in September, that Sanari Capital has concluded a R28m investment in education company, Edulife Group (Edulife), the largest independent school group in the Free State, is a case in point.

Sanari CEO, Samantha Pokroy, told **Catalyst** that the transaction is intended to help grow this typical family-run business into a more professional, corporatised organisation by employing Sanari's "3S" focus on Sustainability, Scalability and Saleability, unlocking its potential to become a recognised education brand in South Africa.

Founded in 2013, Sanari Capital is a private equity investment firm focusing on growth opportunities in the lower- and mid-market.

Sanari specialises in founder-run, owner-managed and family-owned businesses, bringing corporate best practice to entrepreneurial settings, and a sense of ownership to highly corporate environments.

Often, the focus is on the problems and challenges in the education sector, but what this has done is to unleash a wave of innovative social and impact capital, too.

"At Sanari we have always looked at ourselves as technology-flavoured as opposed to technology-focused," explains Pokroy. "The main reason is that we talk about the fact that technology is no longer vertical, but actually something that is applicable to all business, whether you're coming from a conventional business model or leading-edge technology, so we have played in all these areas where we like to bring our technology experience to the table, but really to help all kinds of businesses."

Pokroy explains that Sanari is bringing its innovation lens to the Edulife deal, both in terms of how the private equity firm would like to scale the learning, as well as what it teaches.

"Our educational focus will most certainly be incorporating future-proof skills which take into account the new digital era and all of the impact that that is having, and going to have, socially on society," adds Pokroy.

Founded by Koos Engelbrecht in 1998 with one school and six learners, the group has grown under the leadership of his son and current CEO, Hansie Engelbrecht, to three schools and more than 1200 learners, and is opening its fourth school in January 2020.

Pokroy says that one of the most exciting aspects of this investment is that it comes with a very long history of education practices. When it was founded by Koos Engelbrecht, it was part of a second career for him. He hadn't come from the education space. It was all about how he could give back to society.

"His son has really picked up that mantle and the benefits that it provides through education, and the roots of this business are in very low income communities. We get to benefit from the stable learned base of education, but also take it into a more exciting growth phase."

Edulife Group, which has provided quality, affordable education to the Batho community in Bloemfontein for over 20 years, is in the process of opening a Cambridge curriculum school in 2020, to serve the new Wild Olive estate. The new

school, Olive Ridge, will focus on skills needed for the 4th Industrial Revolution, such as coding and robotics.

Sanari's investment will provide the schools with modern and upgraded facilities, allow the Edulife team to share specialised resources across all schools, triple the number of jobs to over 300, and grow the group's learner base to 2000 plus over the next five years.

"What is quite exciting about this combination is that it obviously has different economic factors that impact on growth in those areas, but Edulife is also able to leverage the curriculum and overheads across multiple schools to bring the benefit across the broad base."

There are some hurdles facing private equity impact investments in the education sector. Chief among these challenges is the fact that while the goal of many education initiatives is to lower the cost of education, doing so can cap the upside in terms of the investment itself. Private equity firms typically purchase companies with debt financing and look to sell them at a profit within several years, either to public markets or other private buyers. A paper released last year, examining 88 such deals across nearly 1,000 colleges in the US, zeroed in on their impact on student outcomes and operations.

The findings cast a shadow over private equity's involvement in higher education, with buyouts tied to less spent on education, higher tuition, more debt per student, lower graduation and repayment rates, and lower earnings for graduates. While the private equity model is different here in South Africa, particularly as it relates to gearing and in the basic education sector, one has to be mindful to ensure we avoid those pitfalls.

"One of the hardest parts of investing in education is when you are starting with a brand new school," explains Pokroy. "Ultimately, when you get to a point where the schools are at full capacity, you are able to provide a quality education at lower cost because of the scales. We've balanced the risk and return prospects in these particular investments because we have schools that are already operating at full capacity, so we are able to leverage off that particular base. Ultimately, the growth cannot only be in each particular school. Once you've reached capacity you don't want to grow your revenue through price increases. Then the opportunity is to grow and expand either nationally or even beyond South Africa's borders.

On that basis, Pokroy makes a convincing argument that Sanari investors will see very attractive financial and social returns over the life of the investment. ◆

Local and international news

VC

The emerging South African venture capital (VC) industry continued to experience robust growth in 2018, with 181 new VC deals reported – an increase of 13.8% from the 159 deals reported in 2017. This is according to the newly released SAVCA 2019 Venture Capital Industry Survey, which also shows a substantial increase in the overall value of all deals, up from the R1bn invested in 2017 to just over R1,5bn in 2018. ◆

DEALS

Leading global edtech company, Snapplify, has secured $2m expansion capital from venture capital firm Knife Capital, and empowered African investment manager Hlayisani Capital's Hlayisani Growth Fund. The funding will boost the company's continued growth into new markets.

Snapplify is at the forefront of edtech innovations in Africa, and specialises in enabling digital learning for individuals and institutions by establishing a marketplace for digital education content, related educational services, and devices. Since 2012, Snapplify has grown and expanded into new markets in Africa, Europe and the United States, with offices across South Africa (Cape Town, Johannesburg and Durban), as well as in Nairobi, Amsterdam and New Jersey. ◆

INTERNATIONAL

The African Private Equity and Venture Capital Association (AVCA) 2019 H1 African Private Equity Data Tracker, shows fundraising for the first half of 2019 reached US$1,7bn in final closes and US$0,9bn in interim closes. 70% of the total amount raised from final closes was from sector-specific funds. This indicates a growing trend for specialization among fund managers, preferring to focus on identifying and valuing opportunities in their areas of expertise.

The report also reveals that 79 deals were recorded, with a total reported deal value of US$0,7bn in the first half of 2019. Moreover, 60% of the total deal value in 2019 H1 was from PE deals below US$50m in size.

In terms of geographies, South Africa attracted the largest share of PE deals by volume (28%), followed by North Africa (19%), while Multi-region deals attracted the lion's share of PE deal value (51%).

As with previous years, Financials, Consumer Discretionary, Consumer Staples and Industrials were the highest performing sectors by volume in H1 2019, attracting 58% of the total deal volume. Meanwhile, Industrials, Consumer Staples and Healthcare were the top 3 sectors by value, accounting for almost three quarters (73%) of the total reported deal value in the first half of 2019. Notably, the Health Care sector showed an important increase in terms of volume and value, rising to 11% and 12% in 2019 H1 from 8% and 4% in 2018 H1, respectively.

The report shows the total number of reported African PE exits in the first half of 2019 stood at 19, with Trade Buyers being the most common exit route, representing over half (58%) of the total exit volume, followed by MBOs or private sales at 37%. ◆

PRIVATE EQUITY DEALS Q3 2019 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Acquisition by	Naspers Ventures (Naspers)	further investment in dott		undisclosed	Jul 4
Acquisition by	Acorn Health Food Group	a stake in Green Machine		undisclosed	Jul 5
Acquisition by	Knife Capital	a stake in Cradle Technology Services		undisclosed	Jul 9
Acquisition by	Bopa Moruo Private Equity Fund 1	stake in Flexible Packages Convertors		undisclosed	Jul 15
Acquisition by	Pool of institutional and private investors	stake in Enko Education	LiquidAfrica	$1,4m	Jul 17
Acquisition by	Boundary Terraces 042 (MIC Investment and Corvest 12)	stake in Bravo Group		undisclosed	Jul 19
Acquisition by	PAPE Fund 3	stake in Angelo Kater Motor Trimmers		undisclosed	Jul 19
Acquisition by	African Rainbow Capital Investments	25% stake in Capital Legacy		undisclosed	Aug 6
Acquisition by	Savant Venture Fund	undisclosed stake in Jonga		undisclosed	Aug 15
Acquisition by	The Carlyle Group	a majority stake in IsoMetrix	Madison Park Group; Webber Wentzel	undisclosed	Aug 22
Acquisition by	KLT Group	AVMY Steel Science		undisclosed	Sep 3
Disposal by	MIC Investment (Datatec BEE partner) to Ascension Capital Partners	40% stake in Westcon Southern Africa	Pallidus Capital; Rand Merchant Bank; Bowmans	not publicly disclosed	Sep 4
Acquisition by	KNF Ventures and Hlayisani Growth Fund	stake in Snapplify		$2m	Sep 25
Acquisition by	Sanari Capital	a stake in Edulife Group	Merchantec Capital	R28m	Sep 30
Acquisition by	CSSAF Mauritius	50% of SMD Technologies and SMD Global	Webber Wentzel	undisclosed	not announced
Acquisition by	Imbewu Capital Partners	an additional 10% stake in Container Conversions	Eversheds Sutherland (South Africa)	not publicly disclosed	not announced
Disposal by	CSSAF Radiowave Investments to a BEE private equity fund (Ascension Capital Partners is the general partner)	30% stake in CSSAF Radiowave Investments	White & Case (South Africa)	not publicly disclosed	not announced

PRIVATE EQUITY DEALS Q3 2019 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED VALUE	DATE
Algeria	Investment by	Tell Venture Automative and other investors in temtem		$4m	Sep 26
Botswana	Acquisition by	Funds advised by Global Natural Resource Investments (additional stake) and Resource Capital Fund VII of a stake in the Khoemacau group of companies		$85m	Jul 18
Côte d'Ivoire	Loan by	Africa Agriculture Trade and Investment Fund to Oragroup		€20mn	Aug 19
Egypt	Acquisition by ■	Funds advised by CVC Capital Partners-led consortium of a 30% stake in GEMS Education	Bowmans; Allen & Overy; Clifford Chance	undisclosed	Jul 10
Egypt	Acquisition by	Investec Asset Management (Investec) from Abraaj Private Equity of a controlling stake in Spinneys Egypt	Pharos Investment Bank; Eversheds Sutherland	undisclosed	Jul 14
Egypt	Investment by	Numa Capital in Doctoorum		undisclosed	Sep 9
Egypt	Investment by	Beco Capital, 4DX Ventures, Endure Capital, 500 Startups, Outlierz Ventures and other loval investors in MaxAB (seed capital)		$6,2m	Sep 25
Ethiopia	Investment by	Women-Owened Business Investment Fun (RENEW and the Impact Angel Network(IAN)) in Travel Ethiopia		undisclosed	Aug 21
Ghana	Acquisition by	Danone of the remaining 49% stake in Fan Milk from Abraaj		undisclosed	Jul 31
Ghana	Investment by	Verod Capital and Red Bull in DTRT Apparel		undisclosed	Aug 15

■ Foreign Deal

PE deals are classified by asset location, except in the case where the PE firm is based in any African country and invests outside of the continent

PRIVATE EQUITY DEALS Q3 2019 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED VALUE	DATE
Ghana	Investment by	ElectriFi in PEG Africa (debt funding)		$5m	Sep 3
Kenya	Investment by	a consortium of investors including SunFunder, DWM and SIMA in d.light		$18m	Jul 1
Kenya	Acquisition by	Sterling Capital of a 20% stake in Afvest		undisclosed	Jul 9
Kenya	Investment by	Toyota Tsusho, Kouros, To:org, Tao Capital, James Sandler, Prelude Ventures, Caterpillar Ventures and Total Energy ventures in Powerhive		$9,3m	Jul 9
Kenya	Investment by	Lateral Capital and Kenyan Cornerstone Group in Lynk		undisclosed	Jul 13
Kenya	Acquisition by	DOB Equity and AHL Venture Partners of a stake in Crop Nutrition Laboratory Services (Cropnuts)	Bowmans; Michelmores	undisclosed	Jul 17
Kenya	Investment by	Energy Access Ventures and ElectriFI in Solarise Africa		undisclosed	Jul 18
Kenya	Acquisition by	AJ Capital and Investment of a majority stake in Insurance for All		undisclosed	Jul 24
Kenya	Investment by	GMS coLABS (Gray Matters Capital) in Taimba		$100 000	Jul 26
Kenya	Investment by	Inqo Investments and a syndicate of investors in South Lake Medical Centre	Shard Capital Partners	$950 000	Aug 6
Kenya	Investment by	Angel investors (Esther Dyson, Nijhad Jamal, Aadil Mamujee, Selma Ribica and Shakir Merali), ShakaVC, Chandaria Capital and Villgro Kenya in Ilara Health		$735 000	Aug 7
Kenya	Acquisition by	FinnFund, Proparco and The Danish SDG Investment Fund of a stake in Maarifa Education Group (Africa Education Holdings)		$21m	Aug 14
Kenya	Investment by	DOB Equity, Global Innovation Fund and Unilever in Mr Green Africa		undisclosed	Aug 19
Kenya	Acquisition by	Oikocredit of a stake in Credit Bank		Ksh1bn	Aug 29
Lesotho	Investment by	One Thousand & One Voices (1K1V) in The Rosehip Company		undisclosed	Jul 9
Mauritius	Acquisition by	Amethis of a stake in VLH (Rogers Group)		undisclosed	Sep 4
Mauritius	Acquisition by	CSSAF Mauritius of 50% of SMD Technologies and SMD Global	Webber Wentzel	undisclosed	not announced
Namibia	Acquisition by	Allegrow Fund (Eos Capital) of stakes in EcoTech, EcoValves and EcoGroup Admin		undisclosed	Jul 5
Nigeria	Investment by	Y Combinator. Fifty Years, Better Ventures, KdT Ventures, Hack VC and Techammer in 54gene (seed round)		$4,5m	Jul 2
Nigeria	Acquisition by	IDG Capital, Sequoia China, Source Code Capital, Meituan-Dianping, GSR Ventures and Opera in Opay		$50m	Jul 10
Nigeria	Acquisition by	InsuResilience Investment Fund of a 39.25% stake in Royal Exchange General Insurance Company		undisclosed	Jul 18
Nigeria	Investment by	Goldman Sachs, Asia Africa Investment and Consulting, Tlcom Capital, Y Combinator and the IFC in Kobo360		$20m	Aug 14
Nigeria	Acquisition by	Norfund of a stake in Sundry Foods from Silk Invest African Food Fund		undisclosed	Aug 15
Nigeria	Investment by	Startupbootcamp, Haresh Swani and Ragnar Meitern in Kuda (pre-series A round)		$1,6m	Sep 11
Nigeria	Investment by	GreenTec Capital in Save N Flex		undisclosed	Sep 13
Nigeria	Disposal by	Momentum Metropolitan to Verod Capital Management of Metropolitan Life Insurance Nigeria		undisclosed	Sep 17
Tanzania	Investment by	AgDevCo in Africado		undisclosed	Jul 15
Tanzania	Acquisition by	EXEO's Agri-Vie Fund II of a minority stake in PPHL	Africa Insight Advisors; Cluver Markotter; Clyde & Co; PKF	undisclosed	Jul 16
Uganda	Investment by	the RENEW and Impact Angel Network woman-focused investment fund in Kijani Baby		undisclosed	Jul 17
Uganda	Investment by	African Rivers Fund (XSML) in Ice Industries		undisclosed	Jul 19
Uganda	Investment by	Yield Uganda Investment Fund (Pearl Capital Partners) in Clarke Farm		$1,5m	Sep 23
Zambia	Investment by	Seed Capital and Business Development facility of the Dutch Good Growth Fund in Rent to Own	Open Capital Advisors	€1m	Jul 8
Zambia	Acquisition by	Finnfund of a stake in Yalelo		$6m	Sep 16

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