

SAVCA 2018 Venture Capital Industry Survey

Covering the 2017 Calendar Year



Research Partner



Proudly championing private equity and venture capital



SAVCA is proud to represent an industry exemplified by its dynamic and principled people, and whose work is directed at supporting economic growth, development and transformation.

SAVCA was founded in 1998 with the guiding purpose of playing a meaningful role in the Southern African venture capital and private equity industry. Over the years we've stayed true to this vision by engaging with regulators and legislators, providing relevant and insightful research on aspects of the industry, offering training on private equity and venture capital, and creating meaningful networking opportunities for industry players.

We're honoured to continue this work on behalf of the industry.

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Foreword



The *SAVCA Venture Capital Industry Survey*, is an annual survey that reports on the Venture Capital (VC) activity for the preceding year, and provides valuable insights for fund managers, investors, entrepreneurs and policy makers about the South African VC landscape.

From the 2017 results, we can see the vibrant VC sector in South Africa is continuing to grow. This is evident in the number of deals, as well as the value of deals reported during the 2017 calendar year.

Despite a tough economic and political climate in 2017, investment activity in the VC sector soared and in this, the fifth SAVCA VC Industry Survey, we are excited to report that it is the first time that the overall value of deals recorded in a year amounted to more than R1 billion. We are likely to see this upward trend in annual deal flow activity continue in 2018.

The number of active fund managers that participated in the *SAVCA 2018 VC Industry Survey* increased marginally from 53 participants in 2016 to 57 participants in 2017. The involvement of Angel Investors has also continued in 2017, further adding to the growth and diversity of investment options available for entrepreneurs.

Despite climbing steadily, the number of exits reported on an annual basis is still relatively small compared to the size of the overall VC asset class. A total of 15 exits were reported in 2017. As the VC sector grows and matures, we are confident that the number of exits will also continue to increase.

Apart from the constant growth of the VC asset class, a standout theme in this year's survey is the role and future impact that the increased capital is expected to have on the overall asset class. For this reason, SAVCA will be focusing on more impact research during the next few months with the aim of answering the primary question: Does the VC asset class have an impact?

As a start, SAVCA has embarked on a socio-economic assessment of the VC asset class, which is reported on in the addendum of this report and provides quantifiable data with which to probe the impact that VC investments are having on the companies they invest in.

To further illustrate the economic impact of VC funding, we have included six case studies in this publication. These case studies provide insights into the types of innovative entrepreneurs and businesses that emanate from South Africa, and the value the VC partnership brings to the transaction and the growth of the economy.

We would like to thank our members and other stakeholders that participated in the survey, as well as our research partner, Venture Solutions, who made it possible for us to produce this very valuable report.

A handwritten signature in black ink, appearing to read 'Tanya van Lill'.

Tanya van Lill
CEO: SAVCA



Section 12J – the tax shield with an annual yield

Stimulating job creation and economic growth with
R1.5 billion
 managed across our four Section 12J funds

Westbrooke Alternative Asset Management is a multi-asset, multi-strategy manager of investment funds and products structured to create and preserve wealth for its clients, partners, managers and stakeholders



Section 12J

Section 12J is an investment tax incentive designed to encourage investment into a range of private companies which meet defined criteria



Listed Equity

Looks to capitalise on special situations, simulated leveraged buyouts and merger and acquisition arbitrage opportunities



Property

WAAM invests directly in USA Multifamily residential properties in partnership with experienced USA-based property asset managers



Credit

WAAM invests in a range of credit, structured finance, real-estate and private debt strategies across the liquidity spectrum

For more information on our product offerings, visit: www.westbrooke.co.za

Contact us: telephone +27 (0)11 245 0860 / email info@waam.co.za

Westbrooke Alternative Asset Management is a registered financial services provider

SA's largest
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 fund manager

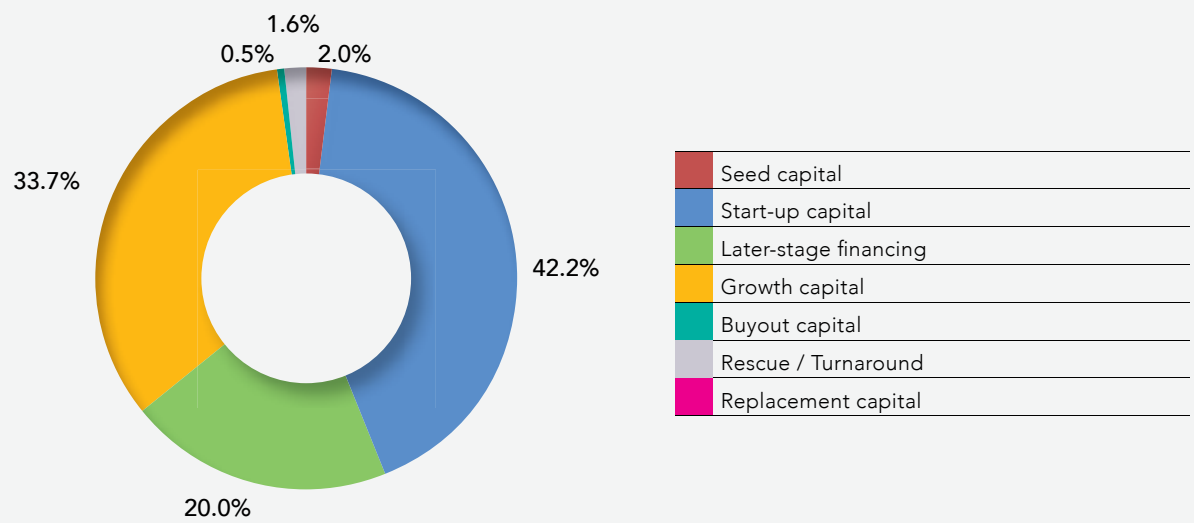


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 Alternative
 Asset
 Management

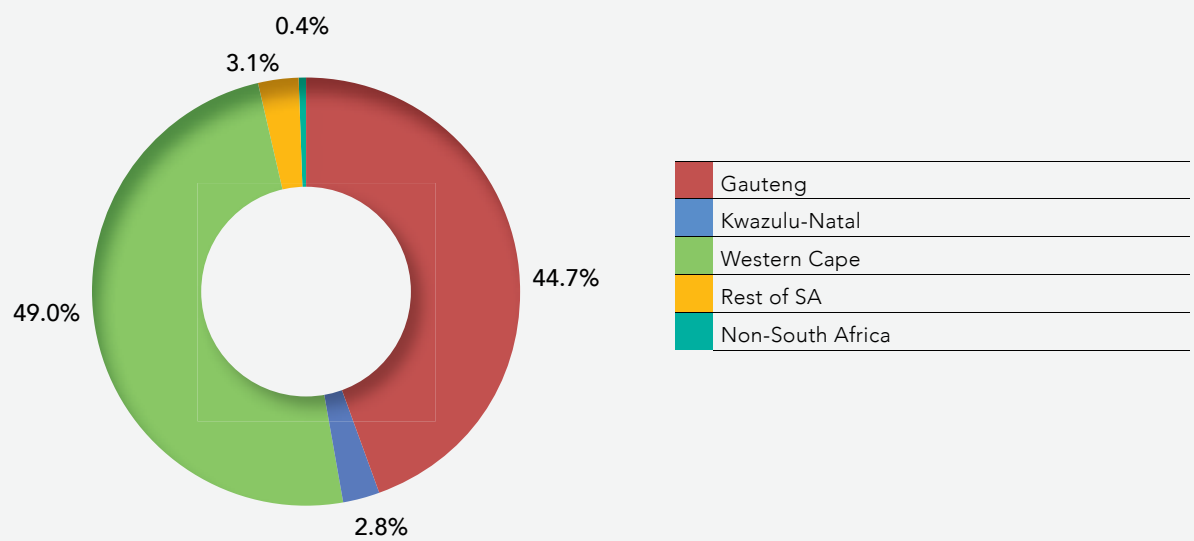
Highlights

- The reported **value** of investments made during 2017 was R1,160 million (2016: R872 million), an increase of 33% compared to 2016.
- The total **number** of investments increased from 114 in 2016 to 159 in 2017, an increase of 39.5%.
- Deals reported for 2017 continued the annual growth rate in South African VC deals, seen during the last five years. 2017 saw 159 VC transactions, a substantial increase from 114 deals reported in 2016.
- The increase in sources of funding from 2016 to 2017, may be summarised as follows:
 - new fund managers, not active prior to 2017, invested in excess of R313 million compared to R312 million invested in 2016;
 - established fund managers invested some R396 million in follow-on investments into existing portfolios. R291 million was invested in 2016; and
 - Angel Investors invested approximately R73 million, compared to R44 million invested in 2016.
- More money is flowing into early stage deals. By value in 2017, only 42% (2016: 51%) of VC deals were categorised as Growth Capital while Seed Funding and Start-up Capital totalled 57% (2016: 49%).
- At the end of 2017, the Southern African VC asset class had the following main attributes:
 - R4.39 billion invested in 532 deals; and
 - investments managed by 57 different fund managers, up from 53 in 2016.
- Fifteen exits were reported for 2017 compared to 14 in 2016.

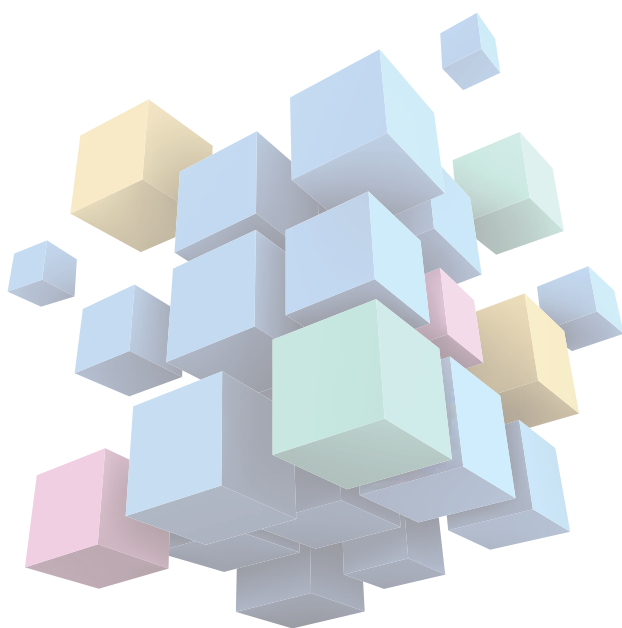
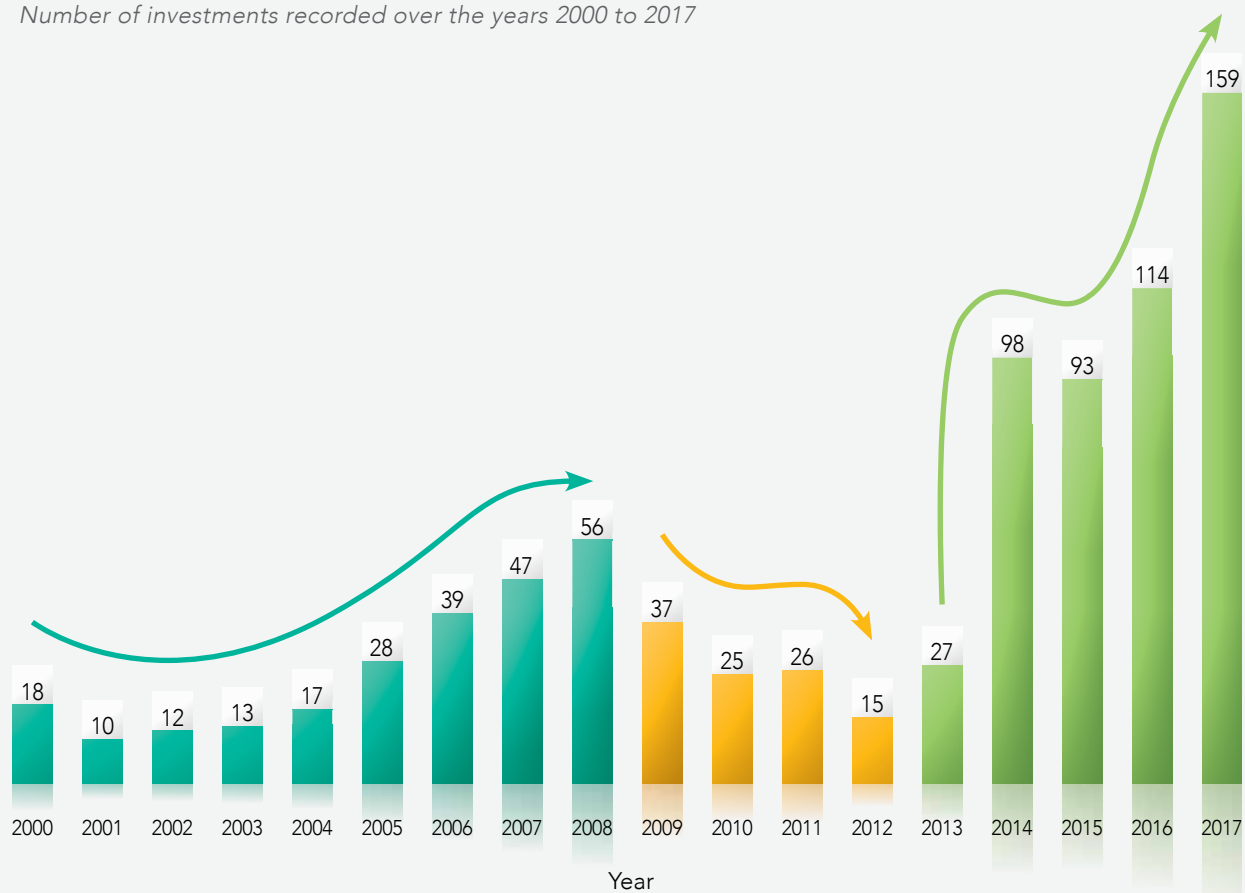
Contribution by stage of the deal; by value of deals, all deals still invested



Location of investee company head office; by value of deals, all deals still invested



Number of investments recorded over the years 2000 to 2017





Smart Capital for Smart Returns

Kalon Venture Partners is the disruptive technology VC fund led by a dynamic and well-experienced team in the SA tech VC space with a combined 200 years of technology, business building, venture capital and entrepreneurial experience.

Kalon invests growth capital in early stage companies that have an experienced management team, referenceable customer base, proven disruptive technology, large target addressable market both locally and abroad and are post-revenue. Our Section 12J disruptive tech fund invests in entrepreneurs solving South African and African problems with the potential to scale into global markets. We focus on providing smart capital, as well as on delivering smart returns.

Kalon Venture Partners Limited is a licensed Financial Services Provider, FSP 46525, and SARS VCC Section 12J no VCC-0030.



kalon venture
partners

The background is a deep blue gradient. On the left side, there is a semi-circular arc composed of many small, bright blue dots or particles. From this arc, a multitude of thin, glowing blue lines radiate outwards towards the right side of the image, creating a sense of dynamic movement and energy, similar to fiber optic cables or data streams.

1 Venture Capital

Venture Capital

- Venture capital is financing that investors provide to businesses, in the start-up and early growth phases, that they believe have long term, high growth potential. These are deals predominantly funded by equity. For start-ups without access to capital markets, venture capital is an essential source of funding. Risk is typically high for investors.
- The need for VC stems from the specific requirements of such businesses, and from the value add role that experienced VC fund managers can play in structuring, supporting and nurturing those businesses.
- VC is not limited to investments in high-technology type businesses but also extend to other sectors where above-average growth and associated returns may be found. In such instances, high-growth returns are underpinned by other factors such as access to large untapped markets, or by differentiators such as exclusive operating licences or comparable enablers that give the investments substantial advantages over their peers. High-tech businesses nevertheless remain a primary source of high-growth returns for VC investors. New investment vehicles and regulatory incentives such as Section 12J in South Africa, as well as emerging market opportunities across the continent continue to broaden the type of VC investors active in the asset class, as well as the business focus and sectors where investments are made.
- The following categories of venture capital were used in this *SAVCA VC Industry Survey*:
 - **Seed capital:** Funding provided before the investee company has started mass production/distribution with the aim to complete research, product definition or product design, also including market tests and creating prototypes. This funding would not be used to start mass production/distribution.
 - **Start-up capital:** Funding provided to companies, once the product or service is fully developed, to start mass production/distribution and to cover initial marketing. Companies may be in the process of being set up or may have been in business for a shorter time, but have not sold their product commercially yet. The destination of the capital would be mostly to cover capital expenditures and initial working capital.
 - **Later-stage financing:** Financing provided for an operating company, which may or may not be profitable. Late stage venture tends to be financing into companies already backed by VCs.
 - **Growth capital:** A type of private equity investment (often a minority investment) in relatively mature companies that are looking for primary capital to expand and improve operations or enter new markets to accelerate the growth of the business.
 - **Buyout capital:** Financing provided to acquire a company. This is typically funded by purchasing majority or controlling stakes.
 - **Rescue / Turnaround:** Financing made available to an existing business, which has experienced financial distress, with a view to re-establishing prosperity.
 - **Replacement capital:** Minority stake purchase from another private equity investment organisation or from another shareholder or shareholders.
- This *SAVCA VC Industry Survey* used the following VC investor classifications, which include:
 - **Angel Investors:** High-net worth individuals who inject funding for start-ups in exchange for ownership equity or convertible debt.
 - **Captive Funds:** Funds in which one shareholder contributes most of the funding, typically where a corporate or parent organisation allocates funds to the Captive Fund from its own internal resources. Captive Funds may be subsidiaries of, or divisions within, financial institutions or industrial companies.
 - **Captive Government:** Funds primarily sourced from a government department or public body.
 - **Captive Corporate:** Funds primarily sourced from a corporate entity such as a listed company.
 - **Captive Other:** Funds sourced from family offices.
 - **Independent Funds:** Funds managed by fund managers in which third parties are the main source of capital and in which no one investor holds a majority stake.



2 Funds under management

Funds under management

- At the end of 2017, the Southern African VC asset class had the following main attributes:
 - R4.39 billion invested in 532 deals;
 - investments managed by 57 different fund managers, up from 53 in 2016.
- Independent fund managers have overtaken Captive Government fund managers as having the largest combined portfolio value under management as at the end of 2017 (37.2% of all funds by deal value, all deals still invested). This is due in part to the increase of investment activity of Venture Capital Companies (VCCs).
- Virtually four of every five deals are managed by private fund managers and Angel Investors.

Fig 1a: Contribution by fund manager type; by deal value, all deals still invested

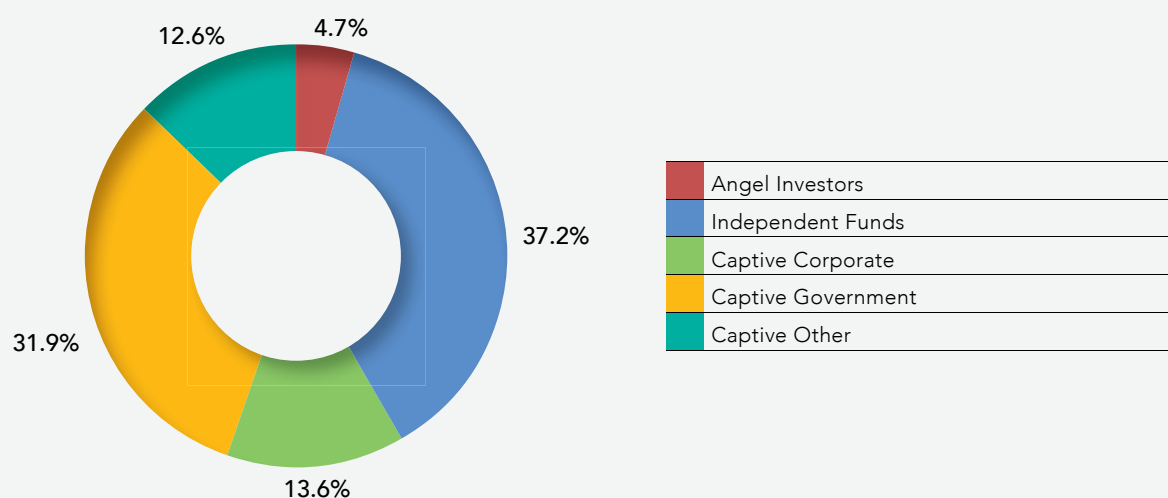
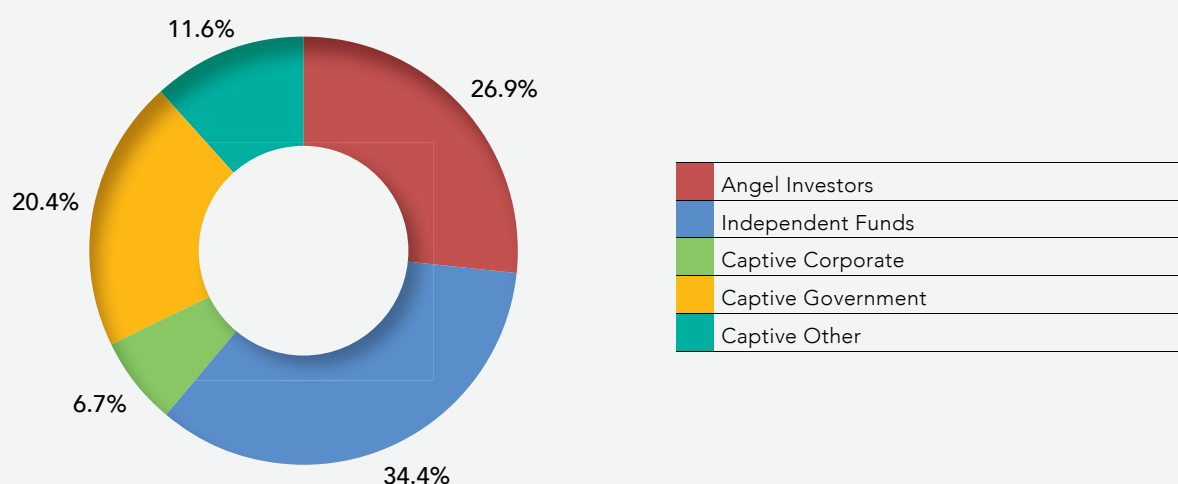


Fig 1b: Contribution by fund manager type; by number of deals, all deals still invested



- Five fund managers (including public and private funds) have portfolios that exceed R400 million in investment value. Some fund managers have invested several rounds into the same transactions, due to a combination of deal-specific attributes such as focusing on niche investment sectors (e.g. biomedical devices), as well as the scarcity of follow-on funding available from other sources. Nearly 70% of all fund managers operate funds with portfolios amounting to less than R50 million.
- Other focus areas such as deals involving buyouts, turnarounds and replacement capital are starting to feature in the business activities of South African VC fund managers, but still amount to less than 2% of all deals in active portfolios.
- Two thirds of fund managers (thus not including deals done by Angel Investors) operate portfolios that contain fewer than ten active deals. Only eight fund managers operate portfolios that exceed 20 active transactions.
- A total of 42.4% of all funds disbursed into VC type deals that are still active, were classified at time of investment as being into businesses considered to be at the start-up stage.
- The development stage of portfolio companies evolve the longer the VC remains invested (see more on this in the addendum for the results of the SAVCA 2018 VC Impact Survey). This is the main reason why growth capital deals amount to 33.7% of value, not so much because of a specific fund focus into later stage deals, but rather as a result of the relatively large number of follow-on deals into existing portfolio companies. The majority of the number of deals that are still active, are classified as Start-up capital (49.6%) and Growth capital (29.3%).



Fig 2a : Contribution by stage of the deal; by value of deals, all deals still invested

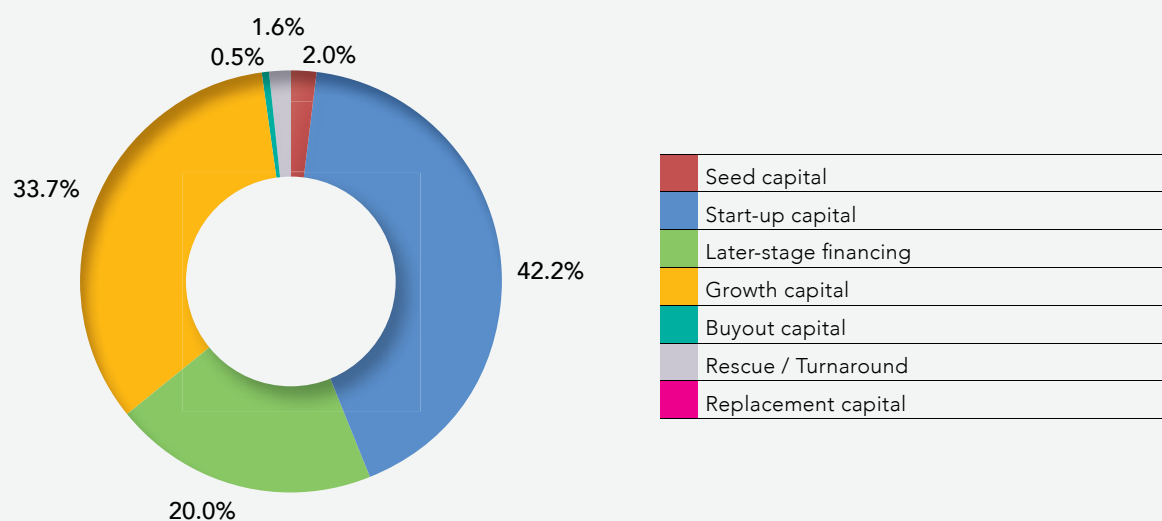
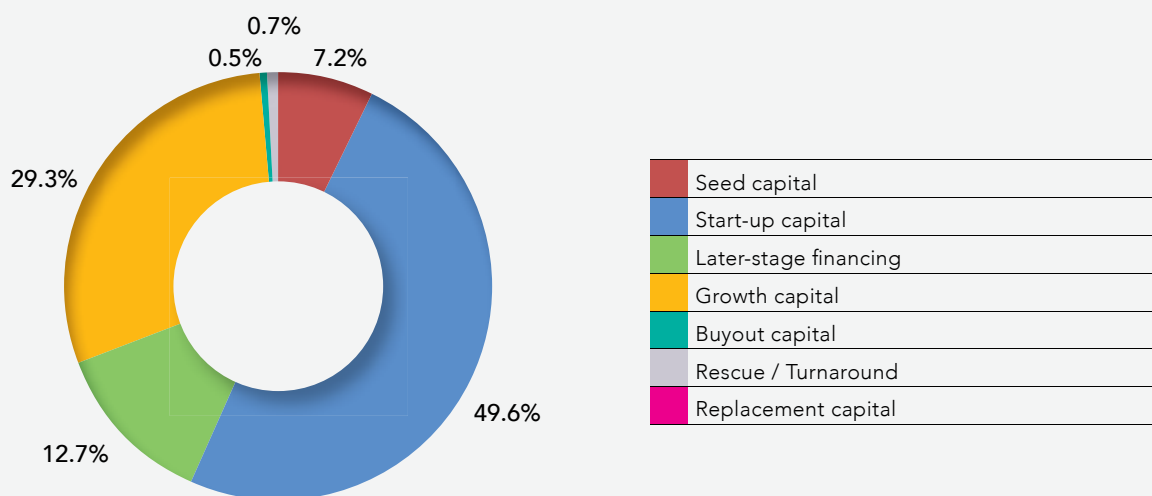
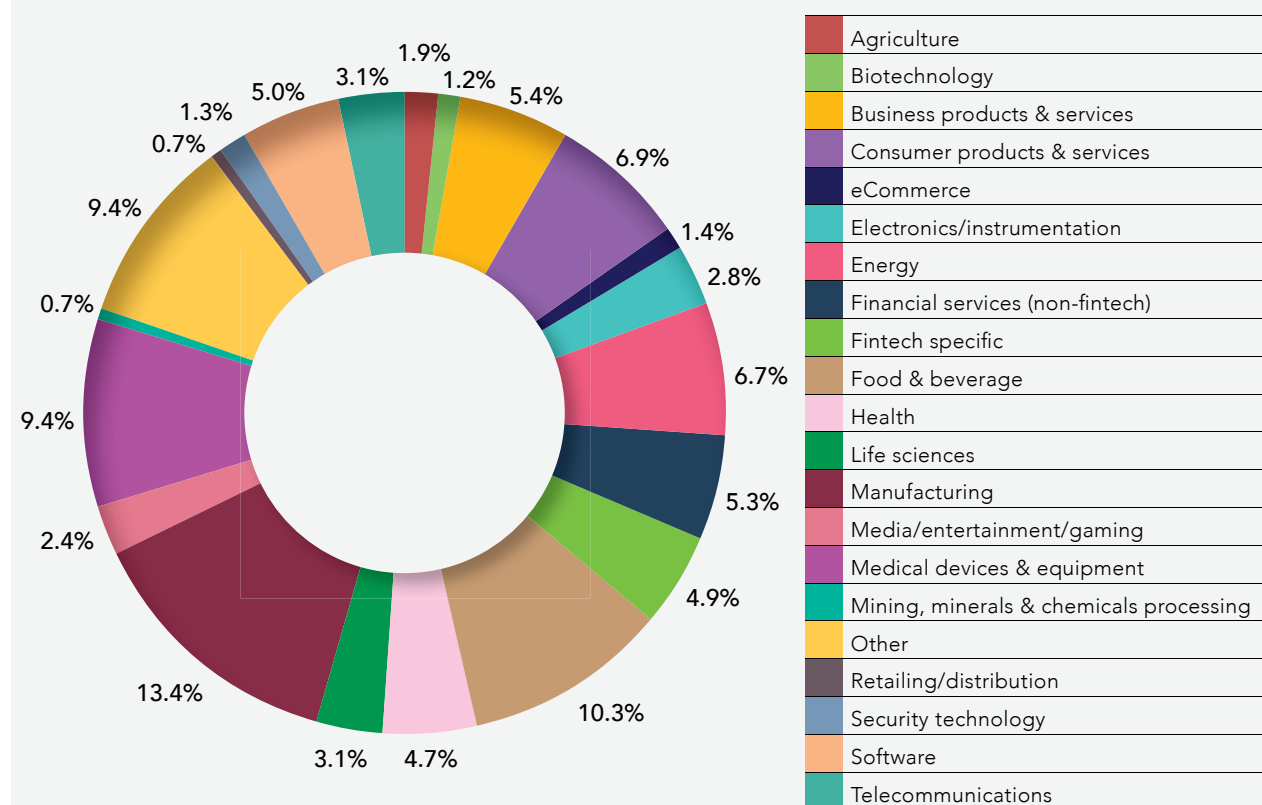


Fig 2b: Contribution by stage of the deal; by number of deals, all deals still invested



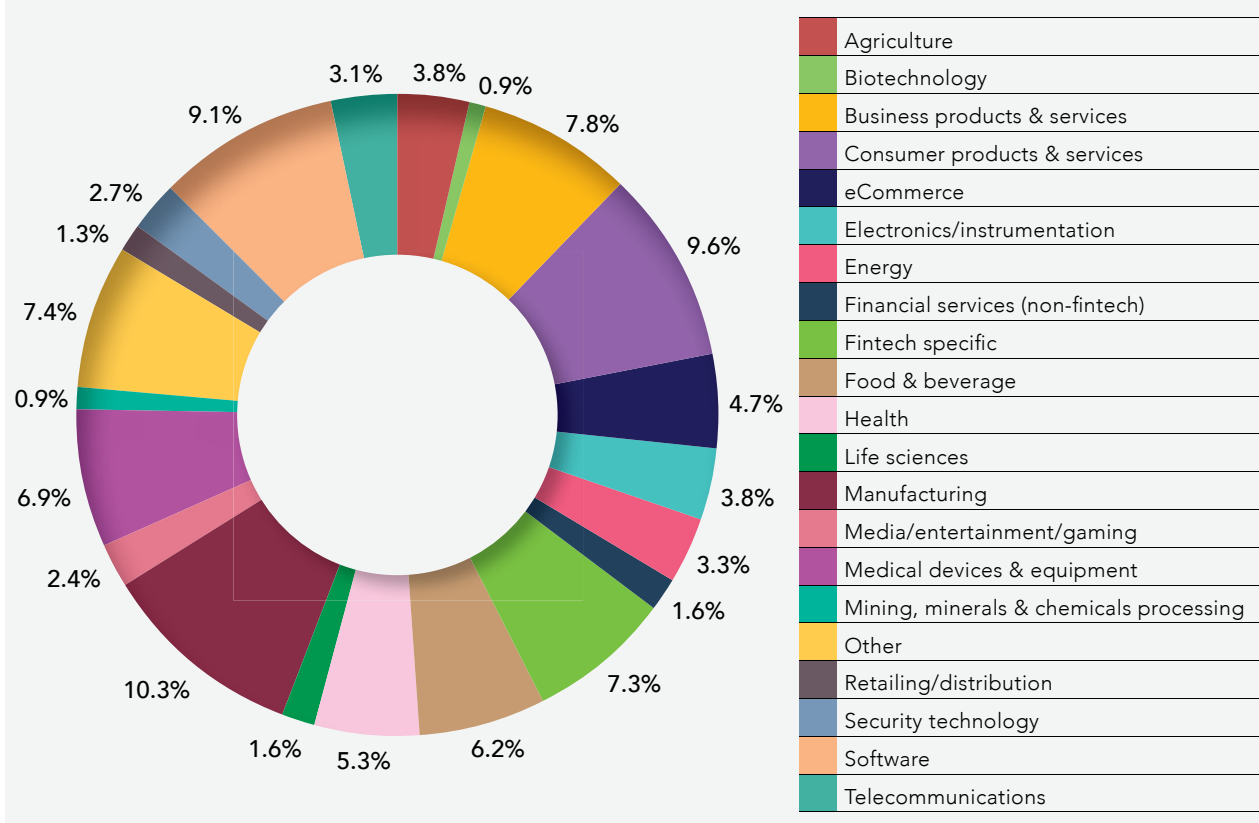
The average deal value of all active deals as at end of 2017 amounted to R8.34 million, compared to R7.59 million at the same point in 2016. By value of deals, Manufacturing accounts for 13.4%, Food & Beverage 10.3% followed closely by Medical Devices & Equipment at 9.4% of the total value of deals.

Fig 3a: Sector allocation by value of deals

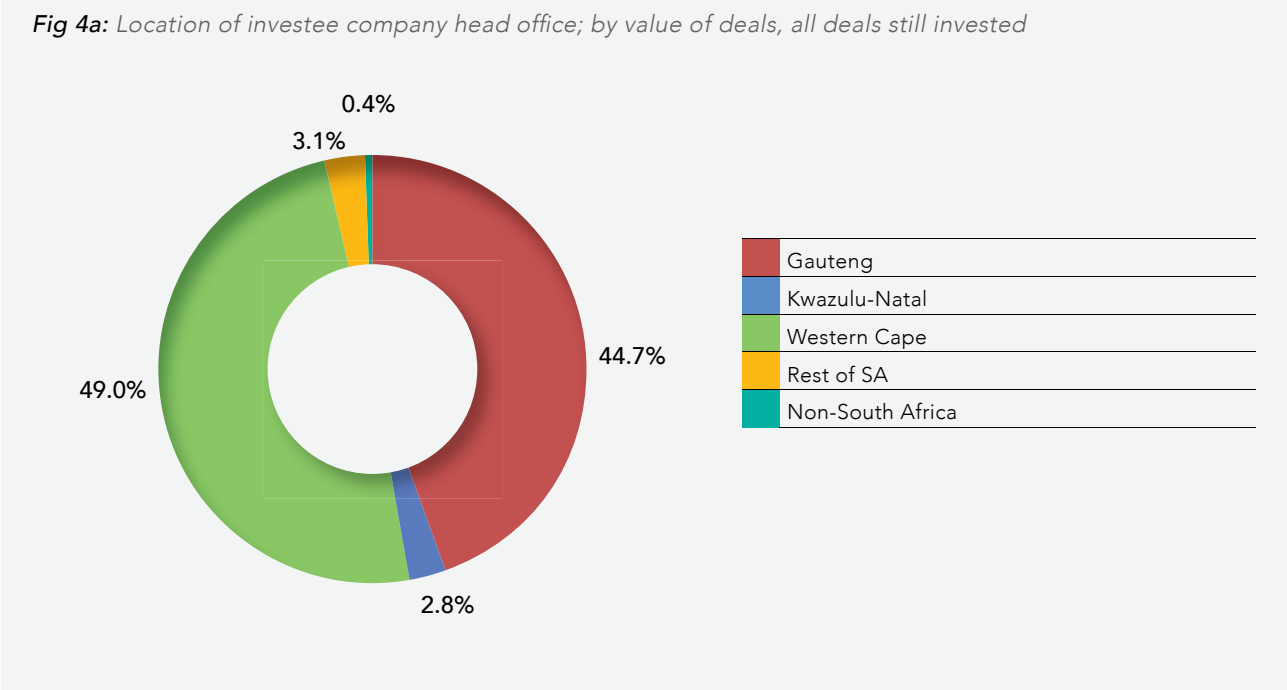


Manufacturing accounts for the largest number of deals (10.2% of all active deals), with Consumer Products and Services following closely in 2nd place (9.6%) and Software (9.1%). Many investments categorised as Consumer, as well as Business Products and Services (the latter accounting for 7.8% of number of deals done, or 4th largest recipient of VC money) involve software or similar ICT related activities. ICT deals (electronics, ecommerce, fintech, security and telecoms) amounts to 21.6% of the total number of active investments.

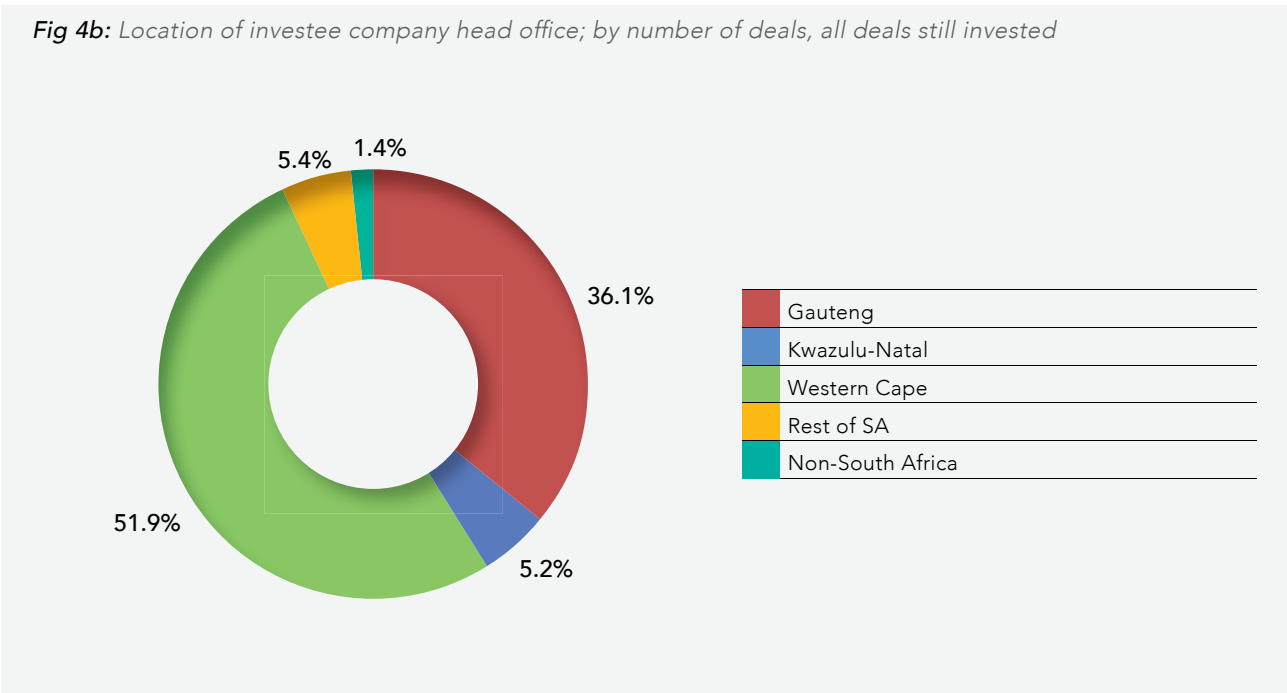
Fig 3b: Sector allocation by number of deals



The entrepreneurial ecosystem drawing on VC investment remains almost exclusively the domain of Gauteng and the Western Cape. The nearest target for VC investment outside of this main axis is Kwazulu-Natal - almost entirely involving companies located in Durban - amounting to only 5.2% of all deals, and less than 3% by value of deals done.



The significance of the momentum in the growth of the Western Cape entrepreneurial ecosystem is underscored by the region drawing on the majority of VC attention, both if taken by number of deals conducted, and the value of deals.

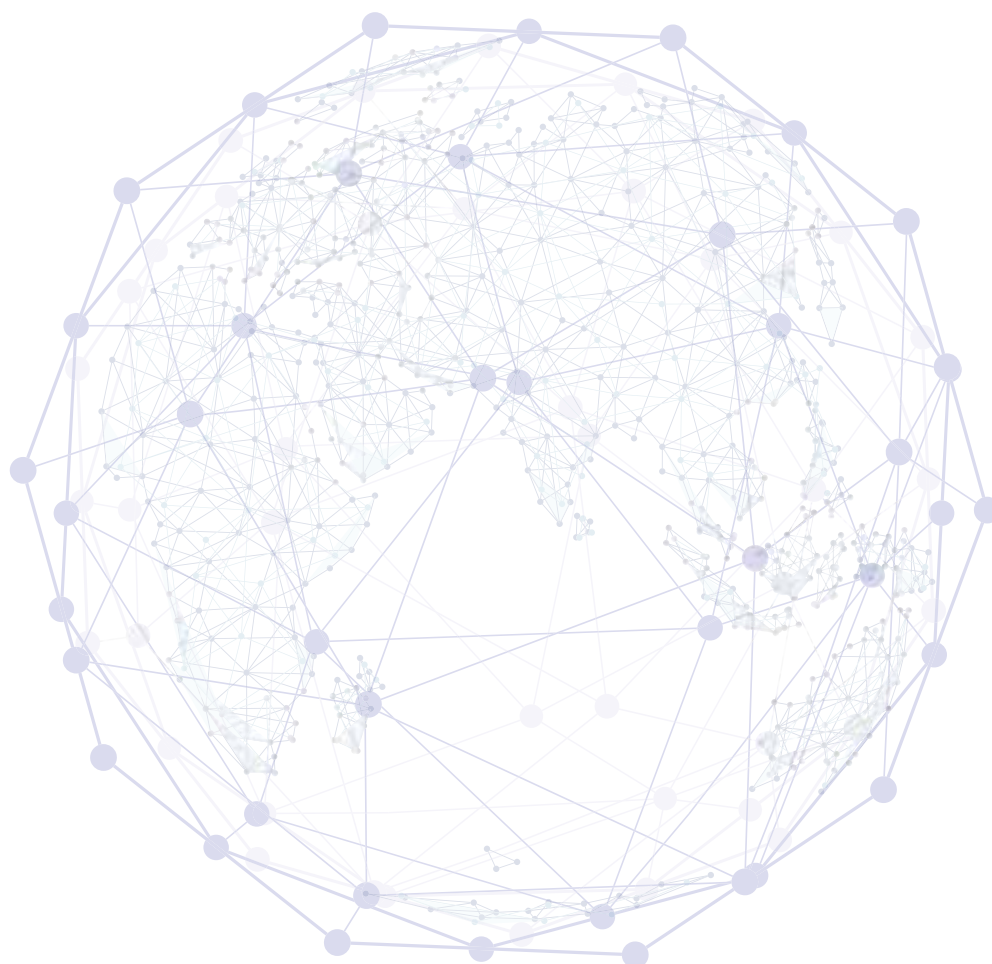




3 Sources of funding

Sources of funding

- The increase in sources of funding from 2016 to 2017, may be summarised as follows:
 - new fund managers, not active prior to 2017, invested in excess of R313 million compared to R312 million invested in 2016;
 - established fund managers invested some R396 million in follow-on investments into existing portfolios. R291 million was invested in 2016; and
 - Angel Investors invested approximately R73 million, compared to R44 million invested in 2016.
- The previous survey report in 2017 reported on the formation of new fund managers setting up funds to draw on the Section 12J tax incentive. This has continued with a substantial amount of investment reported on in the 2018 VC survey coming from VCCs.





4 Investment activity

Investment activity

- The reported value of investments made during 2017 was R1,160 million (2016: R872 million), an increase of 33% compared to 2016. The total number of investments increased from 114 in 2016 to 159, an increase of 39.5%.
- The average deal size of new investments increased from R7.6 million in 2016 to R8.3 million in 2017.
- By value in 2017, 42% (2016: 51%) of VC deals were categorised as Growth Capital while Seed Funding and Start-up Capital totalled 57% (2016: 49%).
- The graphs of investment activity provide a 10-year overview and annual totals by value of deals and by number of deals recorded for the years 2008 to 2017.
- Over the 10-year period from 2008 to 2017, 650 VC deals were recorded for a total investment of R4.3 billion. The recent upswing in VC activity is further evident if comparing 98 deals per year on average for the last five years, to 32 deals during the preceding five years.



Fig 5a: Investments per year for years 2008 to 2017, by value (ZAR million)

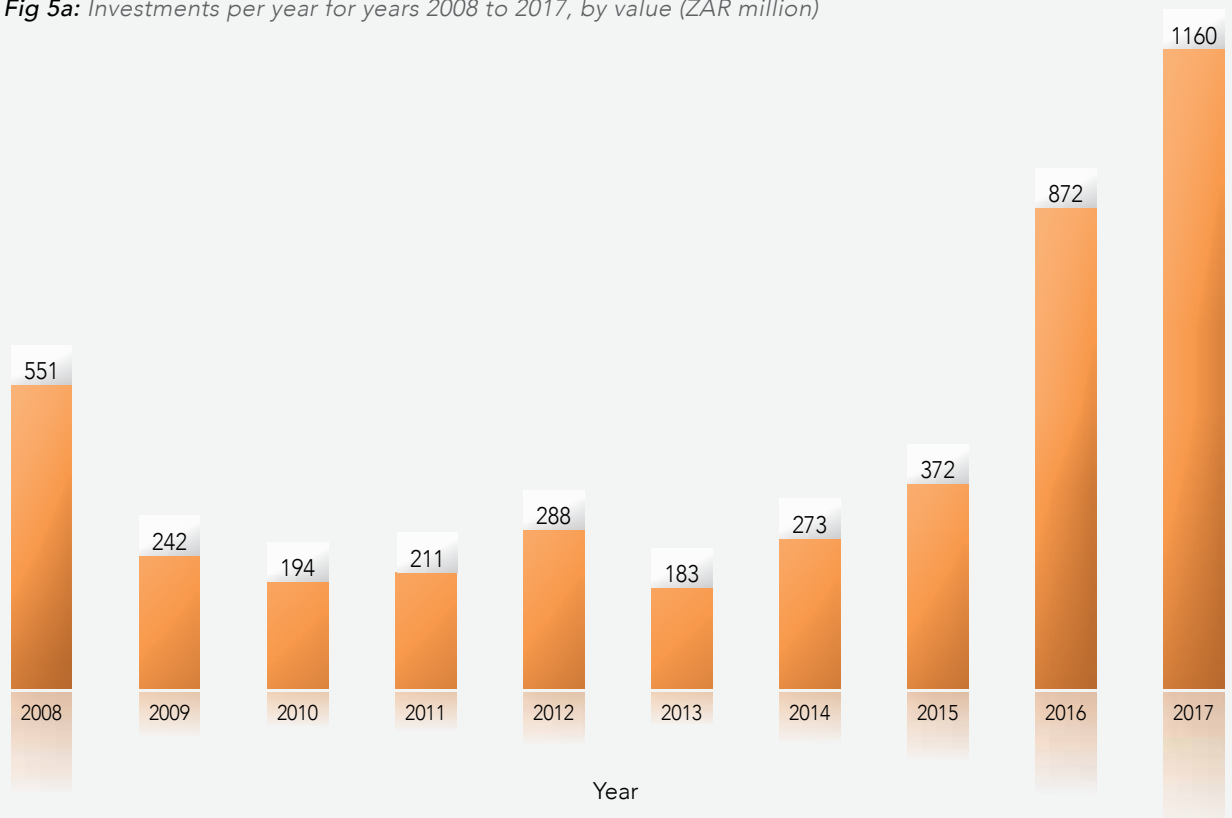
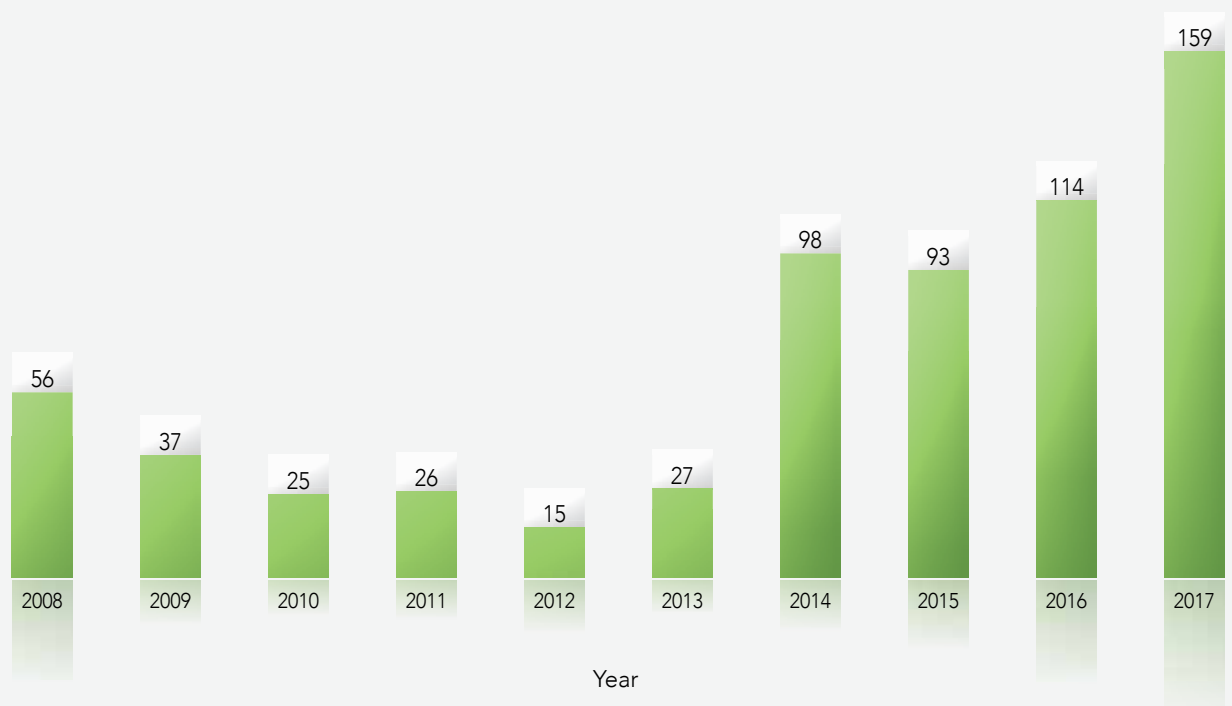


Fig 5b: Investments per year for years 2008 to 2017, by number of deals



- Consumer products and services saw the largest increase in the number of deals reported between 2016 and 2017.
- Manufacturing holds the largest number of deals in the overall portfolio of active deals, but has seen a small decrease in deal flow activity in 2017 compared to 2016. Likewise, there were fewer deals concluded involving business products and services in 2017 than the previous year. Software continues to attract VC investment, especially if considering that a large number of deals in application sectors such as health, business – and consumer products and services, and retail are underpinned by software.

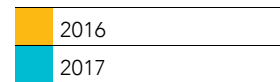
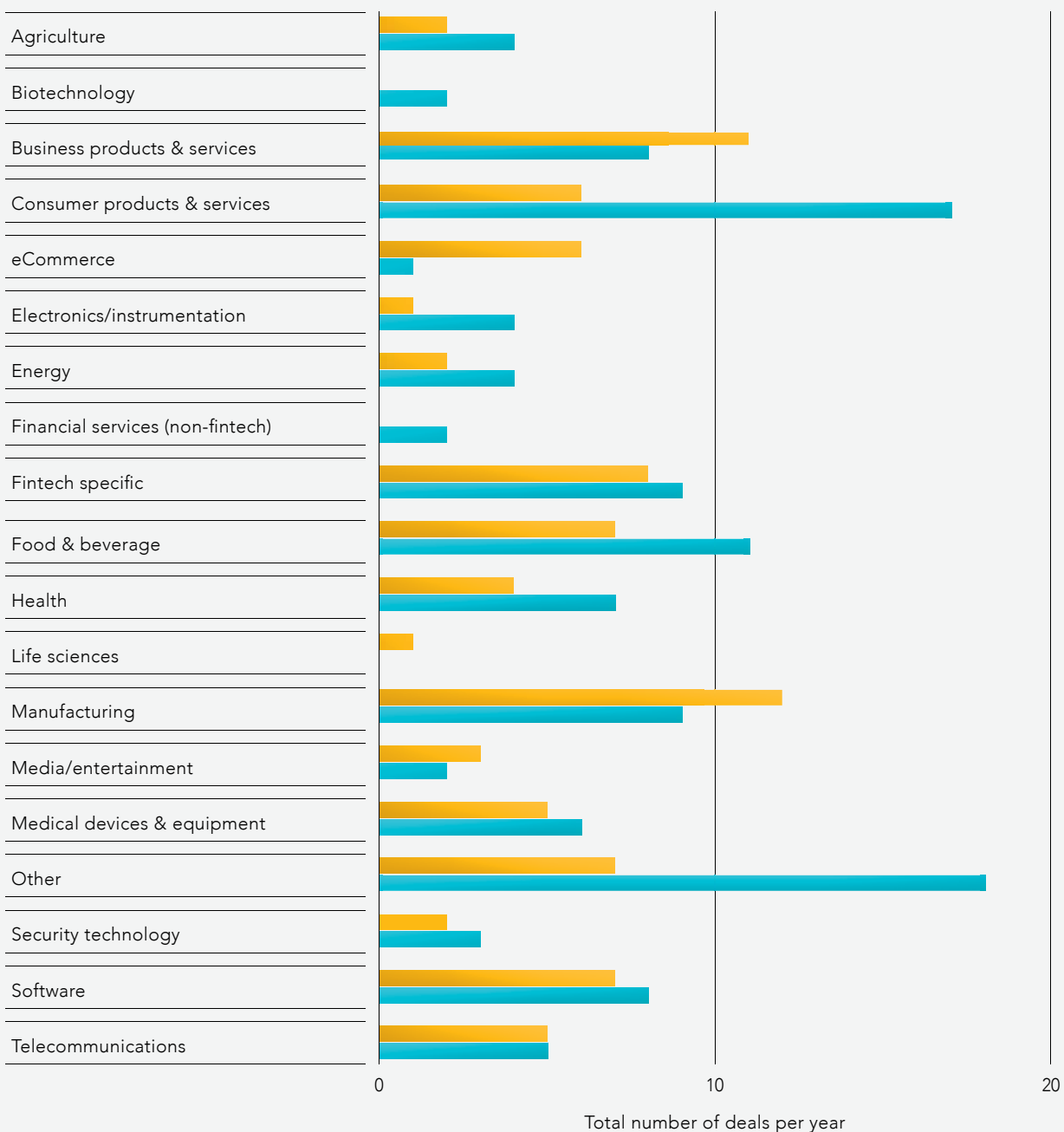


Fig 6: Sector allocation per year, based on number of deals concluded

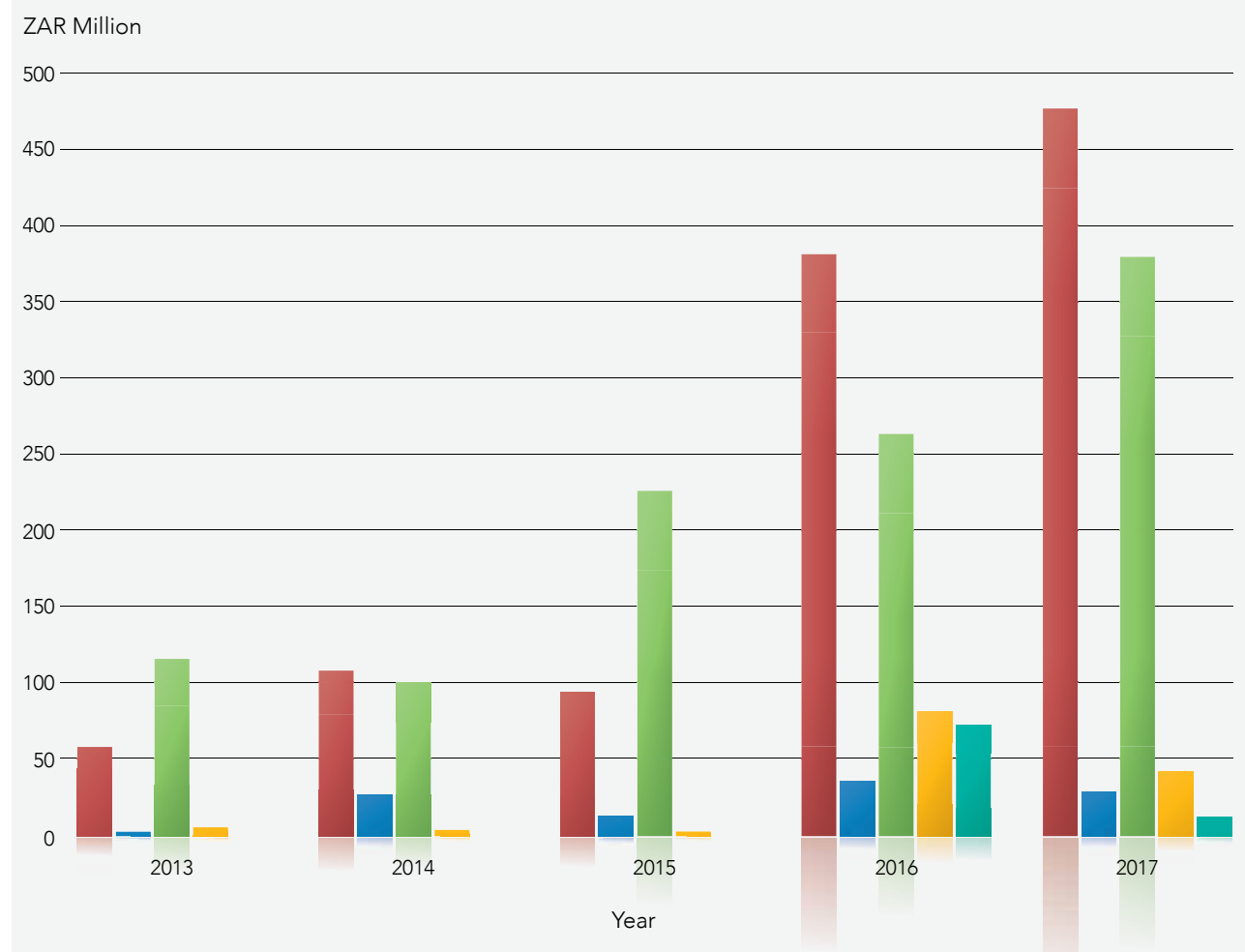


Sources of funding

Gauteng and the Western Cape accounted for 91% of the value of all deals concluded in 2017, demonstrating their dominance of VC backed entrepreneurial activity.

	Gauteng
	Kwazulu-Natal
	Western Cape
	Rest of SA
	Southern Africa (non SA)

Fig 7a: Location of investee company head office by value of deals concluded



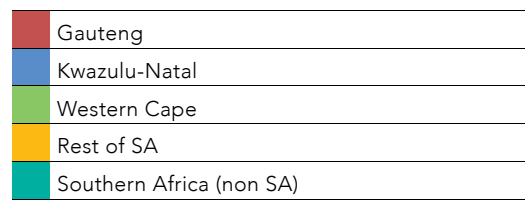
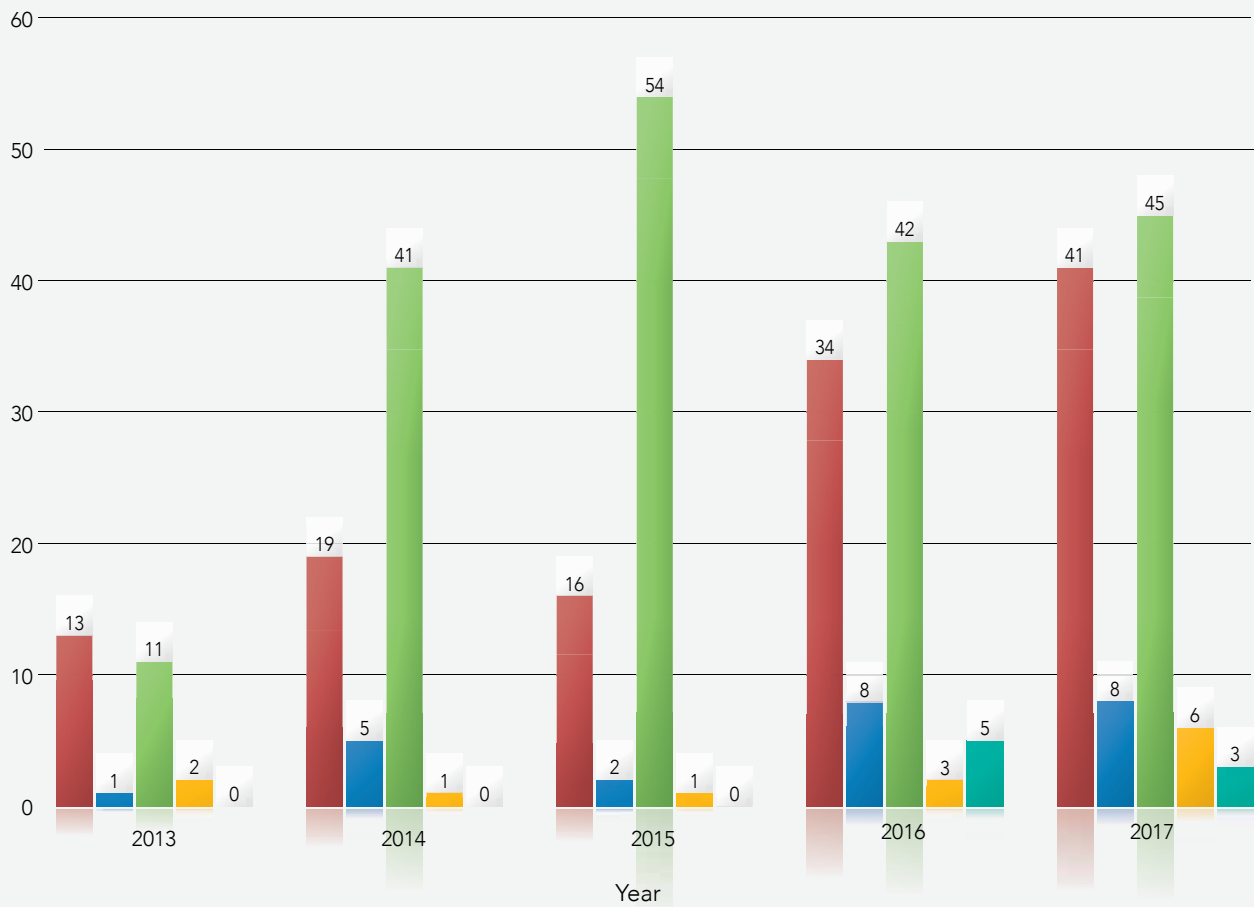
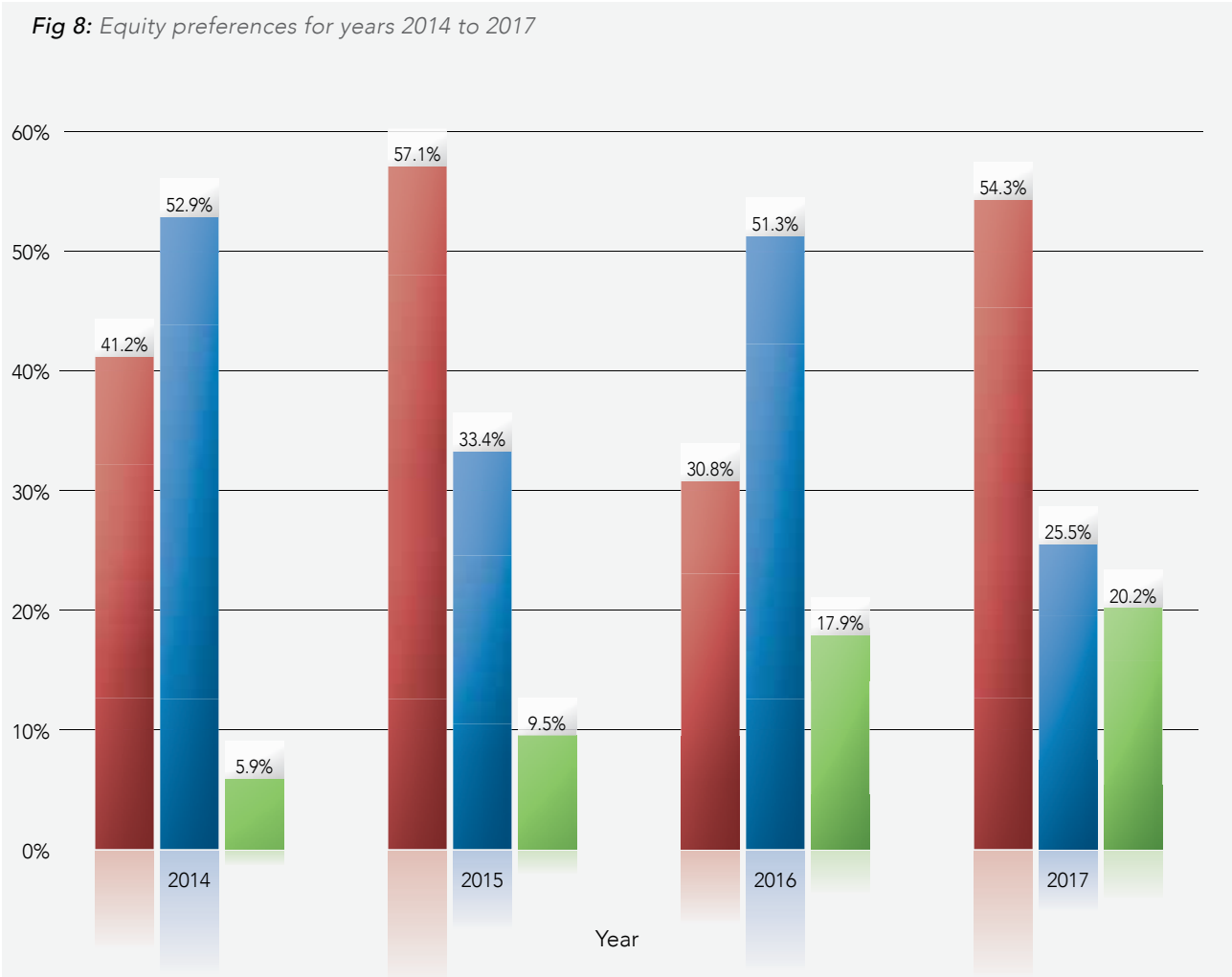


Fig 7b: Location of investee company head office by number of deals concluded



- VC investors prefer to remain minority shareholders with the vast majority taking equity positions of less than 25% in the companies they invest in. A very small number of investors will take a majority equity stake, with most that do report having an equity stake of more than 50%, arriving at that position through follow-on investments into the same deal.
- The reason for the change in minority equity stakes (thus less than 25%) between 2016 and 2017 (a move from 30.8% to 54.3%) can be motivated through the large number of new deals registered in 2017.

	> 0% < 25%
	> 25% < 50%
	> 50%





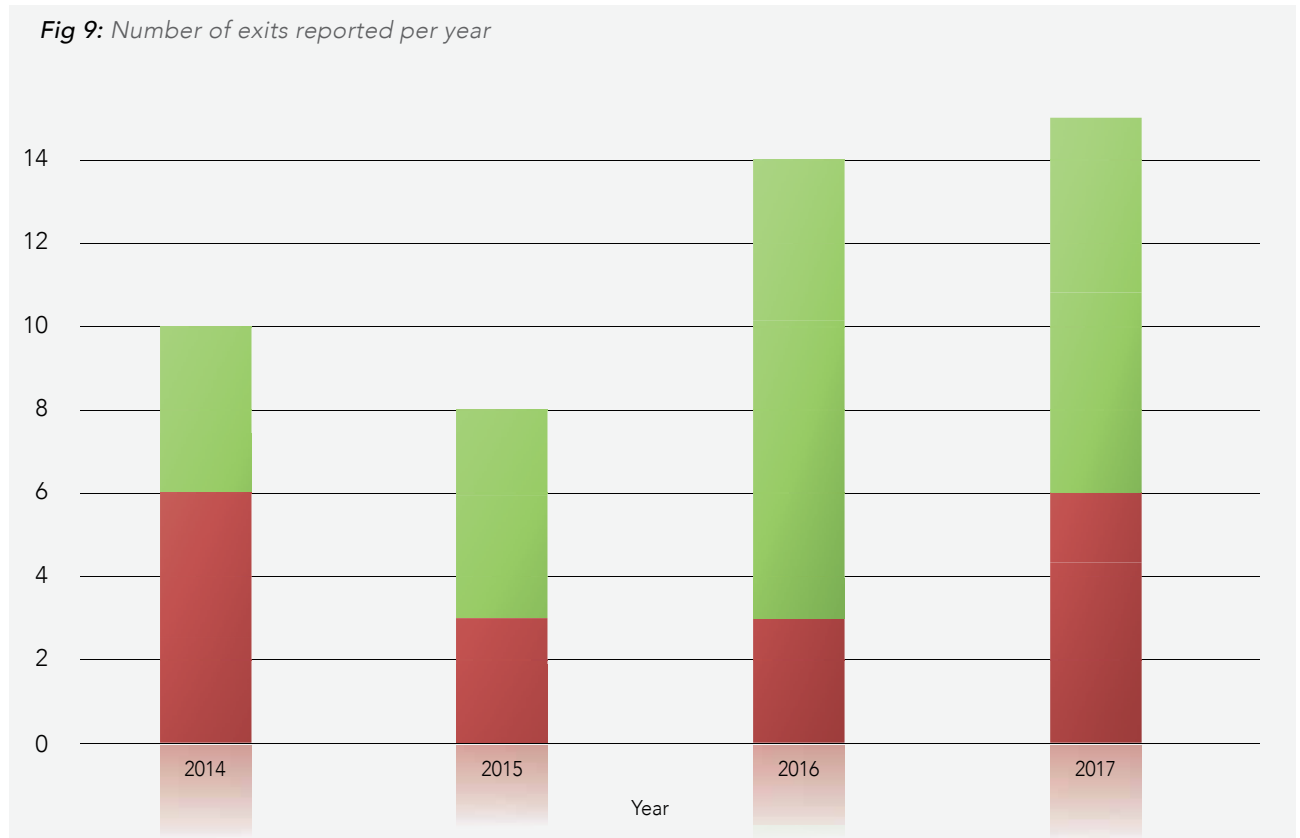
5 Exits

Exits

- Fifteen exits took place in 2017 compared to 14 in 2016.
- Nine transactions were reported as positive exits.
- Trade sales remain the preferred exit route.
- The increase in annual exits is expected to correlate with the constant increase in the annual number of deals recorded since 2012.
- The number of exits pales in comparison to the number of deals conducted, but one should keep in mind that the average holding time for transactions ranges between three and seven years, depending on the sector.
- For this reason, the current low number of exits reflects the relatively low number of deals conducted during the period 2007 to 2013 (the average number of deals per year during that period was 33 per year).

	Loss
	Profitable

Fig 9: Number of exits reported per year



6 Participants



Participants

The list of firms that participated in the SAVCA VC survey are listed below. Only firms that have given consent have been listed.

4Di Capital*
Action Hero Ventures
AngelHub Ventures*
ASOCapital*
Blue Garnet Ventures
Business Partners Limited*
Capricorn Capital Partners
Clifftop Colony Capital Partners
Earth Capital
Edge Growth*
Far Ventures
GAIA Venture Capital*
Grindstone Accelerator
Grovest*: Grovest Energy*, Grovest Venture Capital Company*, Grovest Hospitality Holdings*, Mdluli Safari Lodge, Sunstone Capital, WDB Growth Fund*
HBD Venture Capital
HL Hall and Sons Investments
Horizen Ventures Africa
IDF Capital*
Industrial Development Corporation of South Africa Limited (New Industries SBU)*
Invenfin*
Jozi Angels
Kalon Venture Partners*
Kigeni Ventures
Kingson Capital Partners*
KNF Ventures*
Knife Capital*
Laudian Franchise Management One*
Lucid Ventures
Mianzo Asset Management
National Empowerment Fund
Newtown Partners*
Pallidus Venture Capital Fund 1
Persimmon Energy VCC
Quona Capital
Sanari Capital*
Savant Capital
Savvy Venture Partners*
Startupbootcamp AfriTech
Stocks and Strauss
Team Africa Ventures
Technology Innovation Agency
The Technology Venture Capital Programme managed by the IDC on behalf of the dti
Westbrooke Alternative Asset Management*
White Hall Venture Capital
Zemali International

* SAVCA full members

7 Sources of information



Sources of information

Objectives and methodology

- This SAVCA VC Industry Survey process entailed gathering and processing data through questionnaires and interviews with VC fund managers and other investors conducting VC type investments.
- The approach to this survey was similar to the bottom-up methodology used in previous SAVCA VC Industry Surveys using verifiable data and information about completed VC deals.

Survey scope and attributes

- A comprehensive survey questionnaire was used, probing a large number of attributes about:
 - o VC funds (fund origin, ownership, contributions, location, structure, portfolio details);
 - o VC fund managers (team, location, mandate, source of funds, funds under management, management fees, experience, fund raising activities, deal flow and investment history, exit strategy and history); and
 - o outlook of, and suggestions as to, the development and future of the VC industry in Southern Africa.
- Information excluded from survey data:
 - o The VC asset class globally is comprised of VC type deals made by both individuals and firms. Much of the actual deal flow is not publicly known, as there are limited regulatory and similar formal processes to require disclosure of investment activity by VC investors /fund managers. This is even more so given that individual investors operating in their personal capacity drive a large proportion of the VC asset class. Many investors, especially private individuals prefer to operate anonymously. There is also a substantial number of unreported deals facilitated by independent fund managers, where the details of these deals are not disclosed due to strict confidentiality limitations enacted on such fund managers by their respective investors. Data obtained through surveys of any VC asset class does not therefore reflect the full extent of VC investment activity within a region.
 - o Known investors active in the Southern African VC industry, in addition to those listed on the SAVCA Members' Directory, include Angel Investors, corporate investors, enterprise development agencies, and government backed institutions such as those within the ambit of the DSBD and the TIA.
 - o Deals that entail no equity risk are excluded from this survey.

Glossary

DSBD	Department of Small Business Development
dti	Department of Trade and Industry
EBIT	Earnings Before Interest and Taxes
Fintech	Computer programs and other technology used to support or enable banking and financial services
ICT	Information and Communications Technology, a combination of eCommerce, Electronics/Instrumentation, Media/entertainment, Security Technology, Software and Telecommunications
R&D	Research and Development
ROI	Return on Investment
SARS	South African Revenue Service
SAVCA	Southern African Venture Capital and Private Equity Association
Section 12J	Section 12J of the South African Income Tax Act
TIA	Technology Innovation Agency
VC	Venture Capital
VCC	Venture Capital Company (as per Section 12J)
SAVCA VC Survey	SAVCA 2018 Venture Capital Industry Survey

About

SAVCA

The Southern African Venture Capital and Private Equity Association (SAVCA) is the industry body and public policy advocate for private equity and venture capital in Southern Africa. SAVCA represents about R165 billion in assets under management through 170 members that form part of the private equity and venture capital ecosystem. SAVCA promotes the Southern Africa venture capital and private equity asset classes on a range of matters affecting the industry. SAVCA also provides relevant and insightful research, offers training on private equity and creates meaningful networking opportunities for industry players.

Website: www.savca.co.za

Twitter: @SAVCA_news

Venture Solutions

Venture Solutions is an innovation management and commercialisation consultancy active in Sub-Saharan Africa. The focus is developing high-tech start-ups. Know-how and methodologies target commercialisation of new technologies, leveraging intellectual assets for business profits, and structuring start-up businesses for sustainable growth.

Venture Capital case studies



**Case
Study**



KEY FACTS

Company: Finfind (Pty) Ltd

Website: www.finfind.co.za

Sector/Business Focus: Fintech

Country: South Africa

General Partner/Investor:
Kingson Capital

Year of Investment: 2016

Type of Investment: Growth
Capital

Employees: 15

Employee Growth: Doubled
since investment

INVESTMENT IMPACT HIGHLIGHTS

Kingson's financial modelling expertise and strategic insights provide the team at Finfind with a clear roadmap to work from.

With Kingson's backing, Finfind has been able to introduce targeted marketing initiatives, which has delivered high-quality leads.



Finfind team members at its KwaZulu-Natal offices.



Case Study: Finfind

OUR STORY

Finfind, established in 2015, is an online platform bringing together the providers and seekers of finance for small and medium enterprises (SMEs). The company aggregates public and private sector SME finance offerings into one simple platform and provides an automated matchmaking facility between the lender and the seeker. SMEs requesting finance simply enter their company information and funding requirements into an easy step-by-step online form, which Finfind then uses to link the SME with all matching finance offerings. Finfind receives a commission on each successful transaction.

Besides linking SMEs with lenders, Finfind also has an advisory offering through which it connects enterprises with business advisors and accountants to help them become finance-ready. A further revenue stream is providing big data on South Africa's SME market to both private and public sector organisations.

Finfind eventually aims to take its platform into other African countries where it already has strong relationships with development agencies.



Finfind presentation to SME owners at a business expo in Gauteng.

TRANSACTION MOTIVATION

Kingson invests in entrepreneurs who have unique and scalable technology-enabled businesses. It backed Finfind because its platform solves a very real problem faced by SMEs, and has the potential to generate significant revenue and scale internationally. Finfind is well positioned to take advantage of both public and private sector interest in SME financing.

The investor was further motivated by Finfind's competent leadership team, headed by founder and CEO Darlene Menzies, who was recognised by the World Economic Forum as one of the six top female technology entrepreneurs in Africa in 2017. Menzies has previously founded a number of other business, which gave Kingson confidence that she knows what's required to build a profitable enterprise.

IMPACT OF THE VENTURE CAPITAL PARTNERSHIP

Improving access to finance for SMEs

Kingson's investment has helped Finfind to expand its activities and connect more SMEs with sources of funding. The main reasons why South African SMEs struggle to access financing include: 1) poor financial literacy; 2) inadequate knowledge about who the lenders are and how to access them; 3) insufficient awareness about the types of funding products available; and 4) a lack of finance readiness. On the other hand, lenders typically receive large volumes of funding enquiries and applications that don't meet their finance product criteria or are not ready to be processed. Finfind solves the problems faced by both SMEs and funders, which in turn helps small businesses to thrive, employs more people and ultimately drives economic growth.

Provision of robust financial support

Several of Kingson's partners are qualified chartered accountants with significant financial and strategic expertise. The investor adds value in terms of robust financial support and know-how, and assists with the strategic direction of the business through regular EXCO meetings and its presence on the Finfind Board. Entrepreneurs are often unable to convert their strategic plans for a business onto a spreadsheet. Finfind therefore benefits particularly from Kingson's proficiency

in financial modelling, which involves building an abstract representation of a real world financial situation. In addition to assisting with future fundraising, this type of modelling provides the team at Finfind with a clear roadmap to work from.

Capital to roll out targeted marketing initiatives

Finfind used Kingson's investment to put in place a high-impact digital marketing strategy. It has gained large volumes of quality leads through targeted paid digital advertising campaigns. The company has also utilised innovative barter arrangements to promote its offering. For instance, it has achieved significant brand exposure by providing government, corporates and media publications with access to a current SME base. An example of such a win-win marketing initiative is Finfind's recent launch of its Inaugural South African SMME Access to Finance Report, which was sponsored by the SA SME Fund, a R1.5-billion private-sector backed initiative aimed at growing the country's entrepreneurial sector. The SA SME Fund benefited from having access to the research's data as well as the promotion of its brand.



Additional human resources to plug skills gaps and free up the CEO's time

Kingson's capital injection gave Finfind the necessary cash runway to fill critical skills gaps. Some appointments since investment include a talented chief technology officer and several finance professionals to engage with the lenders. These hires freed up the time of Finfind's CEO, enabling her to travel extensively to open new markets.

The investor is also involved in key appointments by helping to source candidates from its vast network and providing input during the recruitment process. Furthermore, many of the Kingson partners have previously worked for large companies, and therefore provide reassurance to other professionals wanting to leave their corporate jobs to join an entrepreneurial fintech company such as Finfind. 

The Company View

Kingson takes a genuine interest in not only our business, but the team as well. They have done much more than simply given us money or opened doors. It truly feels like we are building the business together as partners. I would do this deal a million times over.

Darlene Menzies
CEO:
Finfind



KEY FACTS

Company: Giraffe

Website: www.giraffe.co.za

Sector: Recruitment technology

Country: South Africa

Investor: Vumela Enterprise Development Fund (the Vumela Fund) managed by Edge Growth

Year of Investment: 2018

Type of Investment: Early-stage

Employees: Nine (Q3 2018)

INVESTMENT IMPACT HIGHLIGHTS

The capital injection allowed Giraffe to hire additional software developers and marketing staff.

The Vumela Fund managed by Edge Growth provided Giraffe with training and mentorship, including participation in its 10X-e in-house acceleration programme and an external strategy workshop.

Giraffe utilises the Vumela Fund's investment to connect more jobseekers to work opportunities, thereby reducing unemployment in South Africa.

Case Study: Giraffe

edge
G R O W T H



OUR STORY

Giraffe is a mobile-based recruitment platform that connects medium-skilled jobseekers to employment opportunities. It helps employers to rapidly and affordably recruit high volumes of staff such as call-centre agents, shop assistants, drivers and factory workers. The company uses a sophisticated algorithm to geolocate and match the most appropriately skilled jobseekers on its database with opportunities listed by its clients. Recruiters can then select the best candidates for interviews. The fully-automated system contacts candidates and can even schedule interviews at a specific time and

location. Giraffe charges recruiters a simple monthly fee for unlimited hiring.

Launched in 2015, Giraffe has attracted close to 700,000 jobseekers to create their CVs on the platform. After spending the past few years proving that it has a viable business model, the company now wants to enhance the sophistication of its platform and aggressively grow its user base. The platform is expected to help fill over 100,000 vacant job positions over the next three to five years. Giraffe will consider international expansion only once it has reached sufficient scale in South Africa.



Giraffe Founders (from left): Shafin Anwarsha, Head of Product, CEO Anish Shivdasani and Bradley Cowie, Head of Development.

TRANSACTION MOTIVATION

The Vumela Fund, managed by Edge Growth, led Giraffe's second funding round, which also included global impact investor The Omidyar Network as well as local backers Forever Young Capital and Catapult Trust. Edge Growth first started engaging with the Giraffe management team 18 months before investing and were encouraged by the fact that the company achieved all its early milestones. This not only validated the business opportunity but also confirmed that the team is able to successfully execute their ideas.

The Vumela Fund, the primary Enterprise and Supplier Development (ESD) vehicle of banking and financial services group FirstRand, provides high-calibre SMEs with financial and business development support. Giraffe is aligned with the fund's dual social and commercial mandates of creating jobs while simultaneously generating a return for its investors.

IMPACT OF THE VENTURE CAPITAL PARTNERSHIP

Connecting jobseekers with appropriate opportunities

South Africa has one of the world's highest unemployment rates, conservatively estimated at around 27%. Although slow economic growth is partly to blame, another reason is what Giraffe CEO Anish Shivdasani calls frictional unemployment – when people don't have access to or visibility of opportunities. With the help of the Vumela Fund's investment, Giraffe is using the mobile phone as a tool to expose jobseekers to opportunities they are interested in and that are within a reasonable travelling distance from their homes. (Many South Africans can't afford the transport costs of


travelling to faraway workplaces). In recent years, several experts and research institutions have identified mobile-based job-matching platforms as enablers to reduce unemployment in emerging markets.

Capital to accelerate business growth

Up until its second round of funding, Giraffe operated in a highly resource-constrained environment. Although this taught the team how to use their resources efficiently, the new capital injection has enabled the company to hire more software developers and marketing staff, which will boost the growth of the business.

Training and mentorship

Giraffe benefited from Edge Growth's 10X-e in-house acceleration programme, which it provides to its investee executive teams. The programme is based on the premise that the skills and knowledge needed to scale from 10 to 100 staff, are very different from the requirements for growing from one to 10 team members. Participants in the accelerator receive training in areas such as building a high-performance team, strategy development, marketing and sales, and financial management. The Giraffe team derived particular value from the programme in terms of internal recruitment, codifying its strategy, and defining an execution plan.

Edge Growth also facilitated an external strategy workshop for Giraffe. Even though the Giraffe CEO previously worked as a strategy consultant, the team gained valuable insights from hearing the perspective of a strategy expert not involved in the day-to-day running of the business. The workshop helped Giraffe sharpen its focus to make the most of its available resources, and not fall into the common start-up trap of trying to do too many things. 



The Company View

Many investors claim they offer both capital and mentorship, but in reality, they just provide capital. I can genuinely say that Edge Growth has given us training and mentorship which helped us tremendously in terms of strategy, execution and recruitment.

Anish Shivdasani
Founder and CEO:
Giraffe



KEY FACTS

Company: i-Pay

Website: instanteft.i-pay.co.za

Sector/Business focus:
Technology

Country: South Africa

General Partner/Investor: Kalon
Venture Partners

Year of Investment: 2017

Type of Investment: Growth

Investor Shareholding: 7.26%

Enterprise Value: R300 million

Turnover: R18.4 million

Revenue Growth: 251% (February
2017 – February 2018)

LBITDA: R5.6 million

LBITDA Growth: -10% (February
2017 – February 2018)

Employees: 19

Employee Growth: 6% (February
2017 – February 2018)

INVESTMENT IMPACT HIGHLIGHTS

Kalon contributes to i-Pay's rapid growth by providing strategic input to a variety of business functions.

The investor is actively involved with key hiring decisions.

By tapping into its wide network, Kalon has introduced i-Pay to new potential clients and partners.

Having a reputable venture capital backer has assisted i-Pay in terms of additional fundraising.



Case Study: i-Pay



OUR STORY

Launched in 2014, the i-Pay platform offers instant and secure electronic payments directly into the bank accounts of both e-commerce and brick-and-mortar merchants. Consumers can pay from mobile and desktop devices, and only need a bank account. The i-Pay platform is also more secure than credit cards as no sensitive information is stored. Merchants, on the other hand, benefit from receiving the money immediately, low transaction fees and the ability to sell to consumers who don't have credit cards. Despite South Africa's relatively developed

banking industry, credit card penetration remains low. i-Pay generates revenue by charging a percentage fee on successful transactions.

In addition to becoming a leader in the South African electronic funds transfer (EFT) market, i-Pay is targeting growth in the rest of Africa and internationally, particularly the European Union (EU). A new EU directive that requires banks to open their payments infrastructure and customer data assets to third parties, provides a significant opportunity for i-Pay to enter this market.



i-Pay Co-founders (from left): Mitchan Adams (CTIO), Thomas Pays (CEO) and Lyle Eckstein (CTO).

TRANSACTION MOTIVATION

Kalon Venture Partners, a venture capital fund focused on disruptive technologies, invested in i-Pay in 2017. The investor was attracted to i-Pay's talented team, led by serial entrepreneur Thomas Pays. The company also had strong technical capacity, particularly in terms of payments expertise. A second drawcard was the technology itself. Although EFT payments have been available for a long time, Kalon believes i-Pay's solution is superior to other platforms. Because the company is continuously innovating, it will take some time for a competitor to catch up.

The investor was also encouraged by the sizeable market for i-Pay's technology, both in South Africa and globally, which is expected to increase with the growth of e-commerce. Another motivation for the transaction was the fact that i-Pay had already achieved considerable traction by the time of investment, with hundreds of clients and 20% month-on-month growth.



IMPACT OF THE VENTURE CAPITAL PARTNERSHIP

Providing strategic input and mentorship to management

Kalon has contributed to i-Pay's success by providing strategic input regarding refining the growth strategy, building a high-performance team, improving management's execution abilities, and ensuring the business remains financially sound. Management is actively assisted to put in place the systems and processes required for rapid growth.

Kalon CEO Clive Butkow, who sits on the i-Pay board as a non-executive director, brings a wealth of corporate experience, having been the former

COO of Accenture South Africa and involved in numerous entrepreneurial businesses. According to i-Pay CEO Thomas Pays, the Kalon team acts as a sounding board for important business decisions and are always available, not only during board meetings.

Assisting with key hiring decisions

Employing the correct people is critical for any business with high growth ambitions, and Kalon therefore plays an active role in key hiring decisions. For instance, it was closely involved with the appointments of the current CFO and sales director. i-Pay's young founders, who are all in their low- to mid-thirties, also benefit from Kalon's guidance in terms of resolving difficult staff-related issues.

Opening doors and offering reassurance to other investors

By tapping into its extensive corporate network, the investor has opened many doors for i-Pay – such as introductions to large e-commerce companies that could integrate the i-Pay solution into their platforms. Kalon has also assisted

with new distribution networks, which has allowed the company to scale much faster by accessing many potential customers at once, as opposed to each individually.

Furthermore, having a reputable venture capital backer, such as Kalon, has helped i-Pay raise a much bigger first funding round and will also benefit future fundraising. Venture capital firms are more likely to fund companies that have already received backing from a respected investor. To finance its global expansion, i-Pay is currently raising additional capital and has already received many offers from investors, including a well-known European venture capital firm. 

The Company View

With Kalon Venture Partners, what you see is what you get. They have delivered on everything they promised ahead of the investment. Kalon CEO Clive Butkow is on our board and has gone out of his way to help us grow and assist with any challenge.

Thomas Pays
Co-founder
and CEO:
i-Pay

Mobile Macs Rentals



KEY FACTS

Company: Mobile Macs Rentals

Website: www.mobilemacs.co.za

Business Focus:
Fleet Management

Country: South Africa

General Partner/Investor:
Westbrooke Alternative Rental Income Assets Limited

Year of Investment: 2016

Type of Investment: Growth Capital

Investor Shareholding:
Mobile Macs 69%
Westbrooke Aria 31%

INVESTMENT IMPACT HIGHLIGHTS

40% increase in the scooter fleet size.

48% increase in employment numbers in the Mobile Macs group.

c. 400 new indirect jobs created.

62% increase in Mobile Macs group revenue.



Case Study: Mobile Macs Rentals



OUR STORY

Westbrooke Alternative Rental Income Assets Limited ("Westbrooke Aria") is a Section 12J Venture Capital Company as defined by the Income Tax Act No 58 of 1962. Westbrooke Aria's strategy and mandate is to partner with established and reputable operators/entrepreneurs in providing their rental businesses with growth capital.

Mobile Macs was founded in 2015 when the entrepreneurs who started the businesses identified a need in the quick service restaurant ("QSR") franchise industry for a reliable, cost-

effective, hassle-free solution to meet the growing demand by consumers for a delivery service. In order to capitalize on this need, Mobile Macs developed a unique business model that enables it to leverage the economies of scale that makes it feasible to offer QSR franchise owners a full maintenance rental plan for their delivery fleets. The unique proposition from Mobile Macs over the conventional full-maintenance rental offerings, is that their model includes regular onsite servicing, a fully serviced workshop, branding and delivery boxes and a dedicated spray booth.



Mobile Macs fleet.

TRANSACTION MOTIVATION

Given Mobile Macs unique offering, the company grew substantially in its first year with a fleet of over 800 scooters. The continued growth that Mobile Macs was experiencing prior to the investment required the founding shareholders to seek a capital investment to enable the business to grow to the next level. As a relatively new business, Mobile Macs needed a new, reliable, partner to assist in its growth aspirations.

From a Westbrooke Aria perspective, the investment opportunity met its mandate and provided an exciting investment for capital to be provided to grow the Mobile Macs scooter fleet and enhance Mobile Macs ability to further leverage its operational efficiencies. Westbrooke was also attracted by the fact that the invested capital will increase scooters on the road and assist QSR franchisees in growing their businesses whilst providing new jobs for scooter delivery drivers.

IMPACT OF THE VENTURE CAPITAL PARTNERSHIP

Service Offering:

With the injection of the Westbrooke Aria capital, Mobile Macs has been able to increase its fleet size to 1,500 scooters as well as increasing its service and product offering. The full offering now includes the following:

Affordable fully serviced and maintained rental solutions;

Improved service and maintenance offering by the in-house mechanical team;

Well stocked repair centre and fully serviced workshop which ensures the fleet downtime is kept to a minimum;

Customization and branding department to customize the customers fleet to ensure the highest visibility on the road; and

Tracking solutions with value added services, such as driver behavior monitoring.

Job Creation:

In the 18 months since Westbrooke Aria's involvement in Mobile Macs, the company's growth has resulted in a nearly 50% increase in direct employment with its staff complement rising to 55.

This includes staff in the sales team, mechanical team and back office team (including a new Financial Director). Given the specialized nature of the mechanical business, Mobile Macs has been able to train and develop staff in the servicing, maintaining and repair of delivery scooters. At the same time, no fewer than 400 new jobs have been created for scooter drivers, who can take comfort in the fact that they are driving well maintained and safe scooters. Going forward, it is believed the ability of franchisee owners to quickly and affordably put and keep delivery scooters on the road will translate into the creation of even more jobs.




Client diversification:

With the additional capital, Mobile Macs has been able to expand its customer base to ensure the business has a wider range of clients whom operate under different franchise brands. This will ensure the sustainability of the business and reduce reliance on a single client.

Financial impact:

Mobile Macs group has managed to increase its top line income by 62% since investment with an increase in EBITDA of 51%.

The performance of the business and rental fleet has been in line with the Westbrooke Aria's projections and is expected to meet the required return on investment. 

The Company View

The involvement of Westbrooke in our business has been an absolute pleasure, it has made a huge difference to our cash flow. When we sign a deal with a franchisee for however many bikes are required, we have comfort in the fact that the capital is available for the investment in the fleet. It's a smooth, hassle-free process that both we, and our customers, appreciate.

Gary Hesselberg
CEO:
Mobile Macs Rentals

SnapnSave



SNAPnSAVE



KEY FACTS

Company: SnapnSave

Website: www.snapnsave.co.za

Sector: Marketing

Country: South Africa

Investor: Kalon Venture Partners and The Smollan Group

Year of Investment: 2017

Type of Investment: Growth Capital

Investor Shareholding: 20%

Enterprise Value: R35 million

Turnover: R7 million
(12 months ending July 2018)

Turnover Growth: 100%
(2017 - 2018)

Employees: 18

INVESTMENT IMPACT HIGHLIGHTS

Strategy sessions, facilitated by Kalon, have led to the introduction of a new offering that currently accounts for 30% of revenue

SnapnSave's investor has enabled new corporate partnerships, including a promising agreement with a large medical aid rewards programme

Case Study: SnapnSave

kalon venture partners

OUR STORY

SnapnSave is a digital coupon app that gives shoppers cashback on selected products by scanning their till slips. Unlike most loyalty schemes, SnapnSave is not aligned to a particular retailer. This allows consumer goods manufacturers and rewards programmes to offer cashback on products bought from any outlet – all that is required is a valid till slip. The Cape Town-based company, established in 2014, generates revenue by charging consumer goods manufacturers a fee to list their products on the platform.

To take advantage of SnapnSave's rewards, users need to: 1) download the app; 2) select the offers they are interested in – such as 30% cashback on a

Cadbury chocolate bar or 10% cashback on two bottles of Hill & Dale red wine; 3) purchase the products; and 4) take a picture of their till slip. The cashback is immediately deposited into their SnapnSave Wallet, from where it can be transferred to a bank account. To date, the company has paid out close to R7 million.

SnapnSave recently launched a new offering that allows independent traders to claim cashback on their purchases at any wholesaler nationwide. It has also partnered with medical aid providers that reward their customers when they purchase healthy food.



TRANSACTION MOTIVATION

Venture capital fund Kalon Venture Partners acquired a minority stake in SnapnSave in June 2017. Kalon co-invested with the Smollan Group, an international retail solutions business. The investors were attracted by the company's innovative, patentable product, which has the potential to scale internationally. It is expected that over one billion people globally will use digital coupons by 2019.

At the time of investment, SnapnSave already had considerable traction and were generating several million rands in revenue. Kalon sees significant growth potential for SnapnSave's offering as consumer goods manufacturers vie for market share in a fiercely competitive market.

The transaction was further motivated by the entrepreneurial acumen of SnapnSave CEO Mark Bradshaw – a chartered accountant with significant experience in the fast-moving consumer goods industry – together with the high-quality team behind him.



IMPACT OF THE VENTURE CAPITAL PARTNERSHIP

Introduction to new business partners

Kalon and Smollan Group have opened several doors for SnapnSave by introducing the company to new and potential business partners, such as retailers, banks, mobile telecommunications operators and providers of existing rewards programmes. For instance, with Kalon's assistance, SnapnSave recently concluded a partnership with medical aid provider Momentum to promote coupons to clients of its Multiply wellness and rewards programme. The partnership will commence with a pilot roll-out to an initial 10,000 clients, and if successful could be introduced across the Multiply network.

Assistance with raising additional capital
SnapnSave is currently raising additional capital to expand globally to countries such as India, China, Kenya and Nigeria, to name a few. Kalon is playing a vital role in this process by introducing the SnapnSave CEO to other venture capital firms, assisting with the required documentation, and guiding him through the process.

Facilitating strategy sessions which led to a new revenue stream

Kalon has facilitated two strategy workshops with the SnapnSave team. One of these sessions directly led to the launch of a cashback rewards programme for the wholesale sector. When SnapnSave launched, it focused on rewarding shoppers buying from large formal retailers. However, Kalon identified South Africa's over 130,000 independent traders and spaza shop owners as an untapped opportunity. Subsequently, SnapnSave now enables these small shopkeepers to benefit from cashback rewards, regardless of which wholesaler they shop at. The company has already partnered with some of

the country's biggest manufacturers – including Tiger Brands, Kellogg's and Johnson & Johnson – to target the informal trade sector, a segment which now accounts for 30% of SnapnSave's revenue.

Introducing corporate governance measures and ongoing mentorship

Kalon, which is represented on the SnapnSave board, has introduced several corporate governance measures to ensure the company is prepared for its next phase of growth. The investor has also managed relationships with other shareholders, allowing SnapnSave CEO Mark Bradshaw to focus on running the business. According to Bradshaw, Kalon is a "hands-on" partner which he engages with on an almost daily basis.



The Company View

The Kalon team are really passionate about business, and they are there to work with you and grow your company and network. They don't just give you money and disappear, and then after a year ask, 'Why haven't you hit your targets?' The CEO Clive Butkow is the kind of guy who you can call at 3am, and he will pick up the phone and listen to you.

Mark Bradshaw
Founder and CEO:
SnapnSave



KEY FACTS

Company: Wala

Sector: Financial technology services

Country: Pan-African (currently in South Africa, Uganda and Zimbabwe)

Investor: Newtown Partners

Year of Investment: 2017

Type of Investment: Start-up

Enterprise Value: > US\$1 million

Employees: 12 (Q3 2018)

Employee Growth: Five to 12 (from 2017 to Q3 2018)

INVESTMENT IMPACT HIGHLIGHTS

Newtown Partners has improved Wala's corporate governance, particularly in terms of legal and regulatory global best practices

The investor supports management through mentoring and coaching

Leveraging Newtown Partners' capital and networks, Wala has been able to launch in three African countries



Case Study: Wala



OUR STORY

Wala is a financial services app for developing markets, particularly in Africa. It targets the young, emerging middle class who are willing and able to be part of the formal financial system but see no reason to pay the high fees associated with traditional offerings. Wala is creating a decentralised financial system specifically designed for these consumers. Through micropayment facilities and zero-fee financial services, the platform enables its users to become economically active and accelerates economic participation across developing

markets. The company generates revenue through value-added services sold in the app.

Wala is the launch partner of Dala – a cryptocurrency designed for developing countries – and the first app enabling the use of Dala for transactions and peer-to-peer transfers. Through Dala, consumers have access to borderless, low-cost, efficient, and unique financial services enabling them to earn, save, borrow, and transact in a new decentralised financial system.



From left: Samer Saab, Tricia Martinez and Ross McEwan.

TRANSACTION MOTIVATION

Newtown Partners was founded by Llew Claasen and Vinny Lingham, two entrepreneurs with significant experience in cryptocurrencies and building digital businesses. It invests in companies that are forward-thinking and on the cutting-edge of their respective fields. Wala not only fitted into these criteria, but also aligned with the investor's passion for backing ventures that can make a tangible, quantifiable social and economic impact. Wala presented an interesting solution to financial services for young emerging middle-class consumers across developing markets, a completely underserved segment.

A further motivating factor was Wala CEO and co-founder Tricia Martinez's previous experience working in developing countries and her background in behavioural economics. Before investing, Newtown Partners worked with the Wala team to ensure that each party's values and strategic intent was aligned.

IMPACT OF THE VENTURE CAPITAL PARTNERSHIP

Reducing barriers to financial services

It has been widely acknowledged that greater access to financial services, for both individuals and businesses, accelerates economic activity. Yet, in the 21st century, nearly half the world's population still operate outside the formal financial system due to high costs and limited access. This hampers economic growth rates due to consumers resorting to cash. The global middle class is expected to increase from two billion in 2009 to five billion in 2030, with much of the segment's growth in size and spending anticipated to come from developing markets. Blockchain technologies offer a solution to meeting the financial needs of this emerging middle class.

With Newtown Partners' financial support, Wala is rolling out technology that radically reduces the barriers to financial services – access and cost – while introducing a micropayments facility. By providing attractive financial services solutions to these underserved consumers, Wala will drive economic activity for individuals and businesses across developing countries, starting in Africa.

Improving Wala's corporate governance


Newtown Partners, which is represented on Wala's board, assists with legal and regulatory guidance to help ensure that the company is governed according to global best practices. This is particularly relevant in the nascent blockchain industry, where the regulatory space is rapidly evolving.



Assisting management with strategy development

The investor intently supports management with activity-based mentoring and regular coaching sessions as well as the development of strategy in specific areas, including marketing, crypto-economics and product design. Furthermore, Newtown Partners helps the Wala team stay current with token economy design and implementation, and the latest thinking around how business models can best be decentralised.

Supporting regional expansion

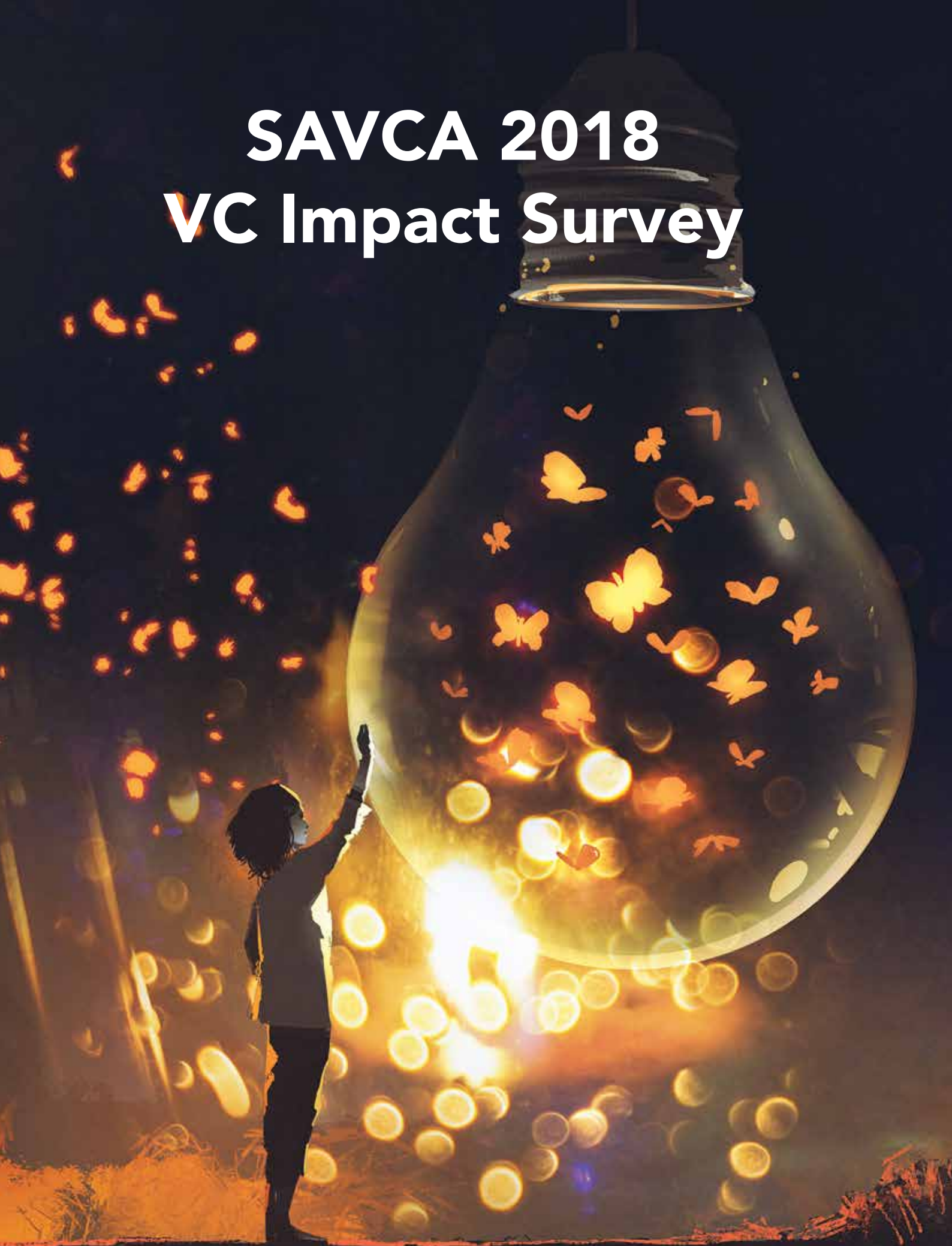
Newtown Partners has leveraged its global network to introduce Wala to new commercial partners. Since investment, Wala has opened for business in South Africa, Uganda and Zimbabwe. The company has seen remarkable early traction: In the first 60 days since its launch, over 100,000 Dala wallets have been created and more than 2.5 million Dala transactions have been processed inside the Wala application. Transactions include peer-to-peer payments, purchases of value-added services such as airtime and data, and bill payments. 

The Company View

The depth and breadth of Newtown Partners' expertise as both entrepreneurs and investors in technology, combined with their commitment to creating globally successful start-ups is key to the future success of Wala. They have been instrumental in shaping and supporting our strategy across business functions. We are excited about the next steps in our journey with the Newtown Partners team.

Tricia Martinez
CEO and
Co-Founder:
Wala
Director:
Dala Foundation

SAVCA 2018 VC Impact Survey



SAVCA 2018 VC Impact Survey

Is Venture Capital a good investment? Is it good for the economy? These are key questions that need to be reviewed regularly, to ensure the sustainability and growth of the asset class as a whole.

SAVCA implemented a brief socio-economic impact assessment of fund management activity to assess the impact of VC fund managers in general.

The following addendum outlines the results from this survey, involving data from 38 VC-backed South African companies. The data sourced through the survey complements the normal VC survey as it addresses the main question as to whether or not VC is a positive contributor to the development of the SA economy.

By studying the data from the SAVCA 2018 VC Impact Survey, SAVCA found the following:

- VC is a vital tool to stimulate and support new business activity, critical to the diversification and transformation of the South African economy, as 97.1% of VC backed businesses would not have existed or would have developed slower, were it not for VC investment.
- VC backed businesses are more predisposed to increase employment, including better remuneration, following VC investment.
- VC backed businesses take a positive outlook towards transformation, with 8 of 10 companies in the sample using VC investment to become compliant with BBBEE regulations.
- VC investment contributes positively to the sustainability of businesses, evident from the fact that respondents clearly moved up along the development curve from date of investment, to date of the survey.
- This is further strengthened by the fact that the 94.3% of respondents were still in business at the time of the survey.
- VC investors are actively involved in their investments, on average interacting with them more than once every month.
- The role and value of having a VC investor includes not only capital, but VC fund managers also importantly provides credibility and support to the business, offers strategic advice, strengthens the BBBEE rating of the firm, and provides management expertise.
- VC backed businesses target growth and the gaining of market share.
- VC backed businesses consider their growth in turnover and earnings to be substantially better than their peers that do not have a VC investor on-board.

Not all businesses are suitable for VC investment and VC is not a panacea for every type of growth challenge. However, South African entrepreneurs polled as part of this survey, report that VC is a critical tool for business growth and achieving sustainability.

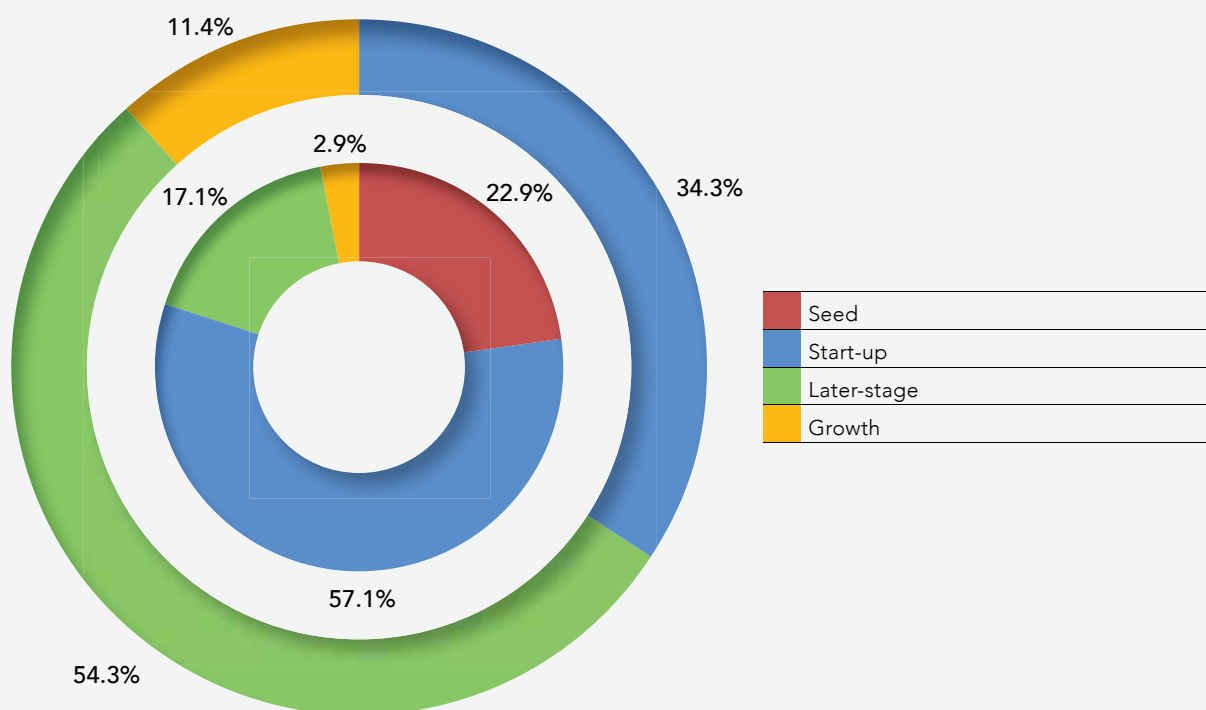
The following section outlines the findings from the VC impact survey and demonstrates the case for promoting the VC asset class as an instrument to accelerate business growth and sustainability, and as a tool for socio-economic development and transformation.

Post Investment Performance

The vast majority of respondents in the survey obtained VC investment during the early stages of the business development cycle (seed or start-up). Most respondents reported moving further along the development cycle, with all respondents having left the seed stage at the time of the survey, and the majority now considering themselves as later-stage or growth stage businesses.

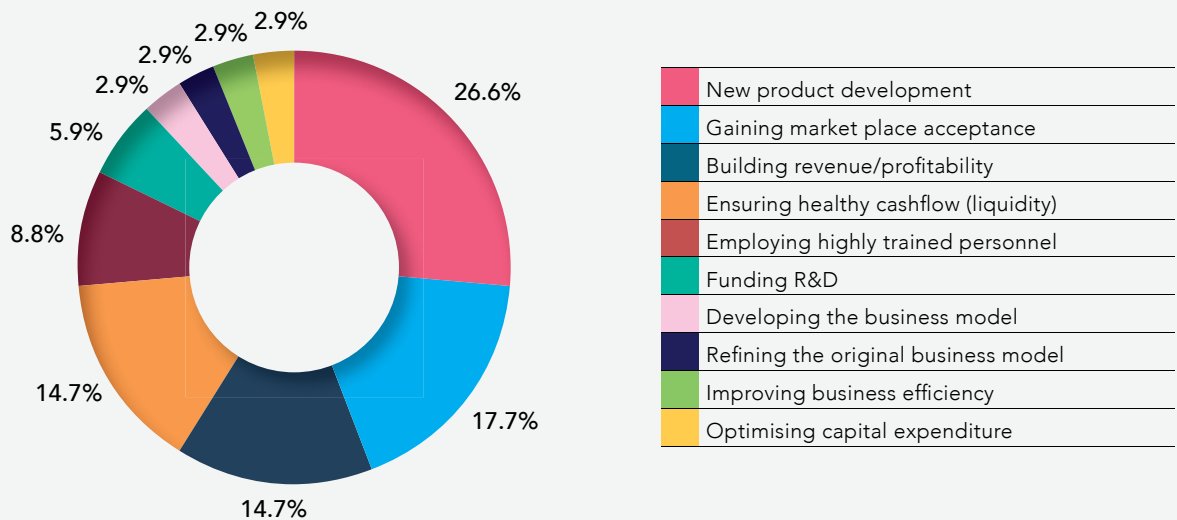
Fig 10a: Stage of the business at time of investment (inner ring)

Fig 10b: Current stage of the business (outer ring)



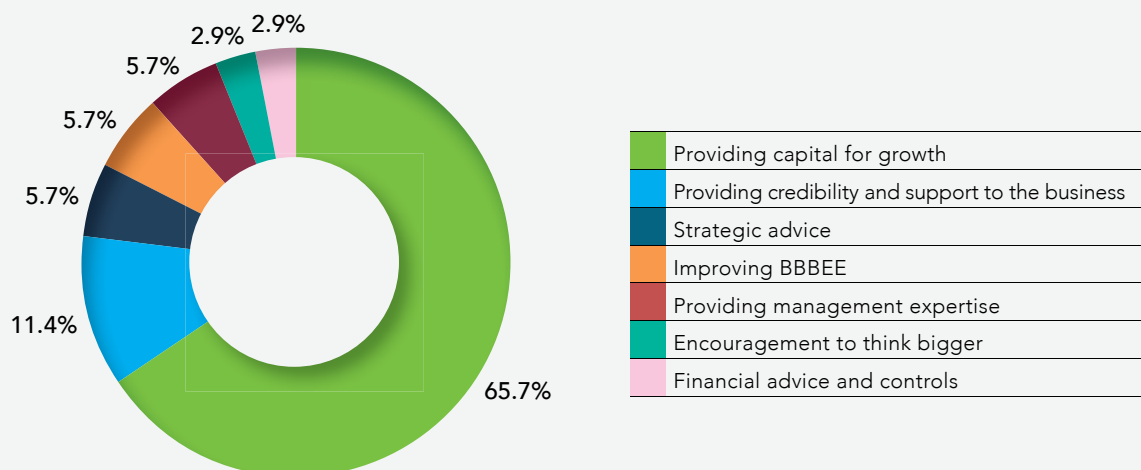
Respondents had to select from a number of options to indicate what they considered to be the most significant value creator of having a VC investor in their business. New product development (26.6%) was the most common value creator selected. However, the next four value creators selected indicate that most businesses use VC to get into the market, rather than conducting pre-market technology development only, as gaining market place acceptance (17.7%), building revenue/profitability (14.7%), ensuring healthy cash flow (14.7%) and employing highly trained personnel (8.8%) account for more than half of the overall responses.

Fig 11: Most important value creator selected by respondents



The focus on operations and growing the business is clearer in the following graph, indicating that almost two thirds selected the use of VC as a source for providing capital for growth.

Fig 12: What was the single most significant benefit to date, of having the VC investor on board?

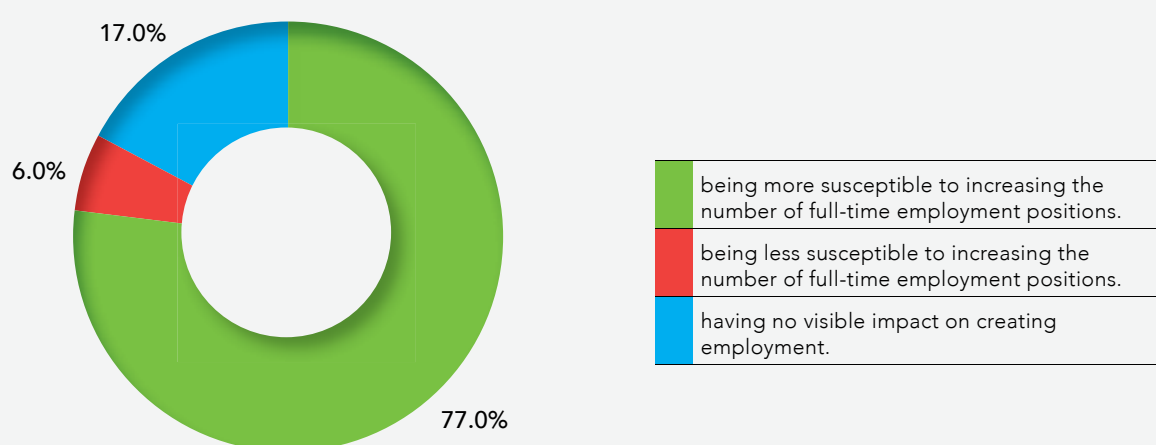


Impact of VC on employment

VC investment is globally seen as a major driver of new economic development and transformation. The question has been asked if this is true of South Africa as well. Respondents were asked a number of questions to indicate their views towards the impact of VC on employment.

Out of all respondents, 77% indicated that having received VC investment has had a positive impact on their susceptibility to increase the number of full-time personnel.

Fig 13: Having had investment from a VC has resulted in the business...



VC-backed businesses believe that they substantially outperform their non VC-backed peers, both in terms of turnover and EBIT.

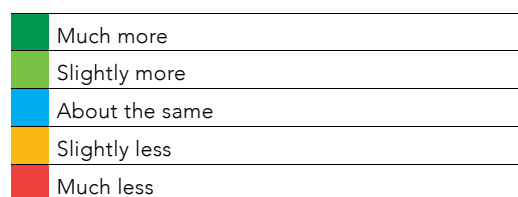
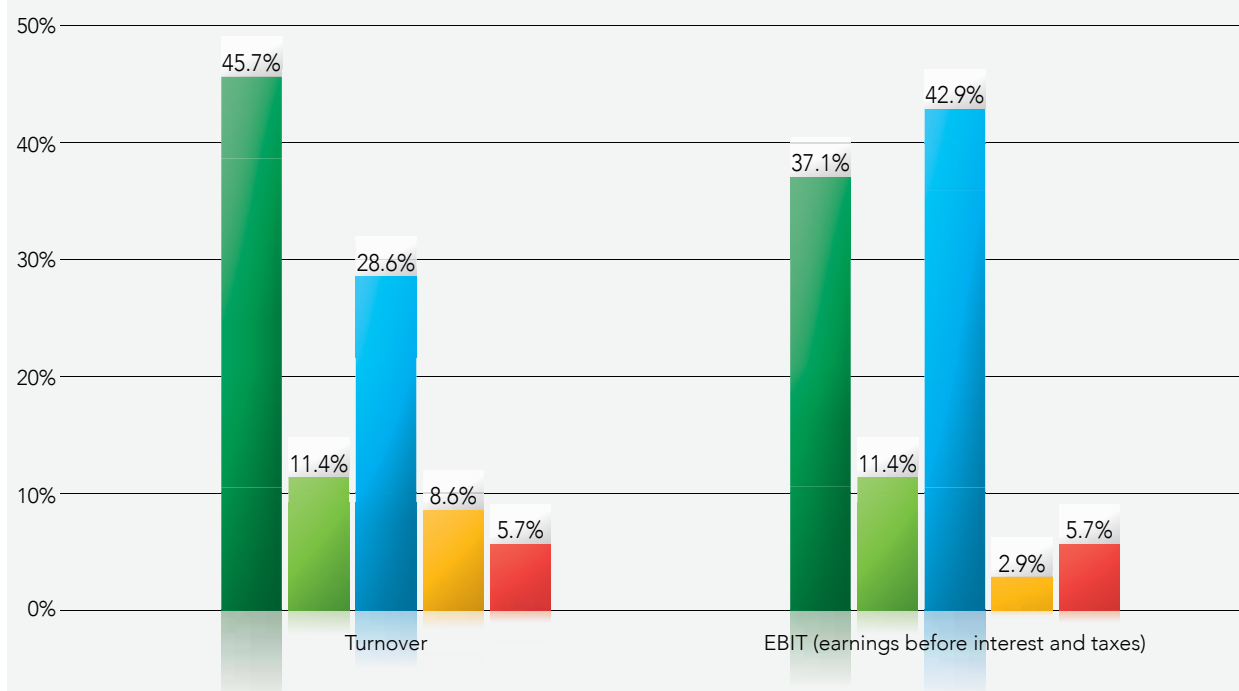
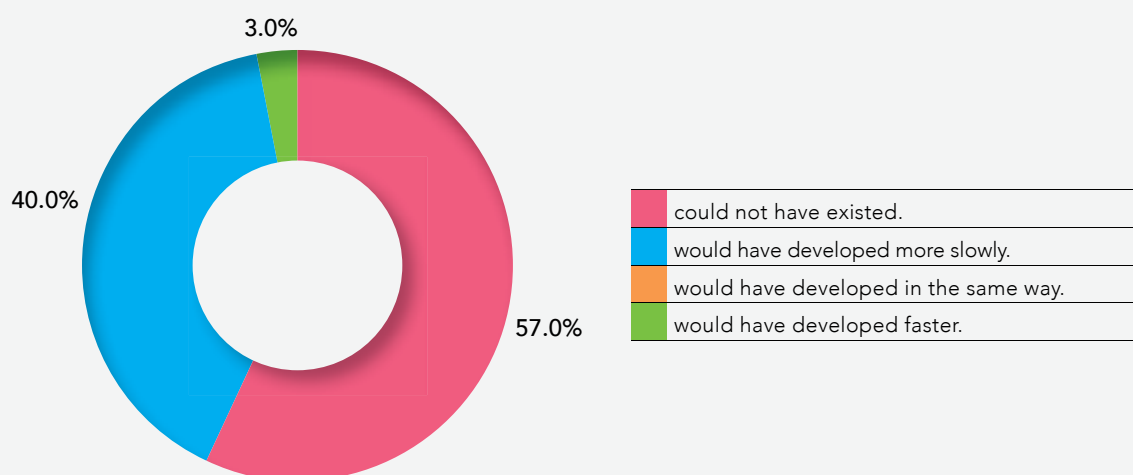


Fig 14: VC investment impact on turnover and earnings



There were 97% of respondents who indicated a positive impact of having a VC investor on-board, with 57% indicating that the business could not have existed without the VC investment.

Fig 15: Without VC investment, my business...



Operations of the VC-backed venture

Allocation of the capital following VC investment

Most VC-backed businesses prioritise investment in marketing and R&D, in comparison with lesser increases in spending reported for training and capital expenditure. This correlates with previous responses in so far as allocating capital towards growth strategies that prioritise business growth and gaining market share.

Values don't add up to 100%

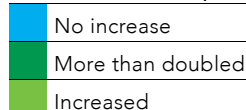
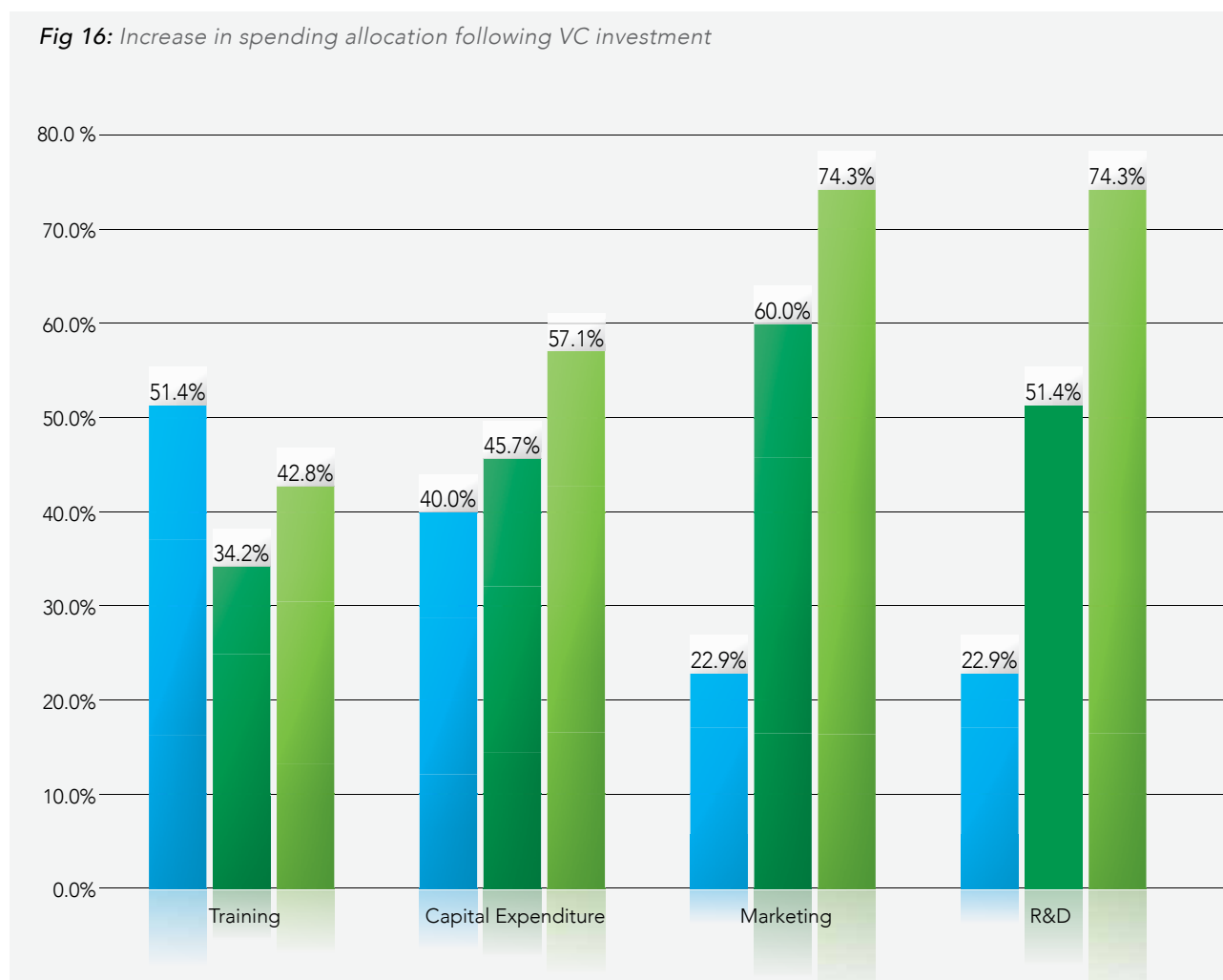


Fig 16: Increase in spending allocation following VC investment



Exporting is the only spending strategy where the majority of responses indicated no change in spending following VC investment. Employment and R&D were the two spending areas that received the highest priority from VC backed businesses.

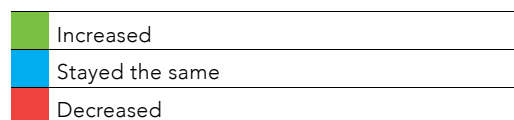
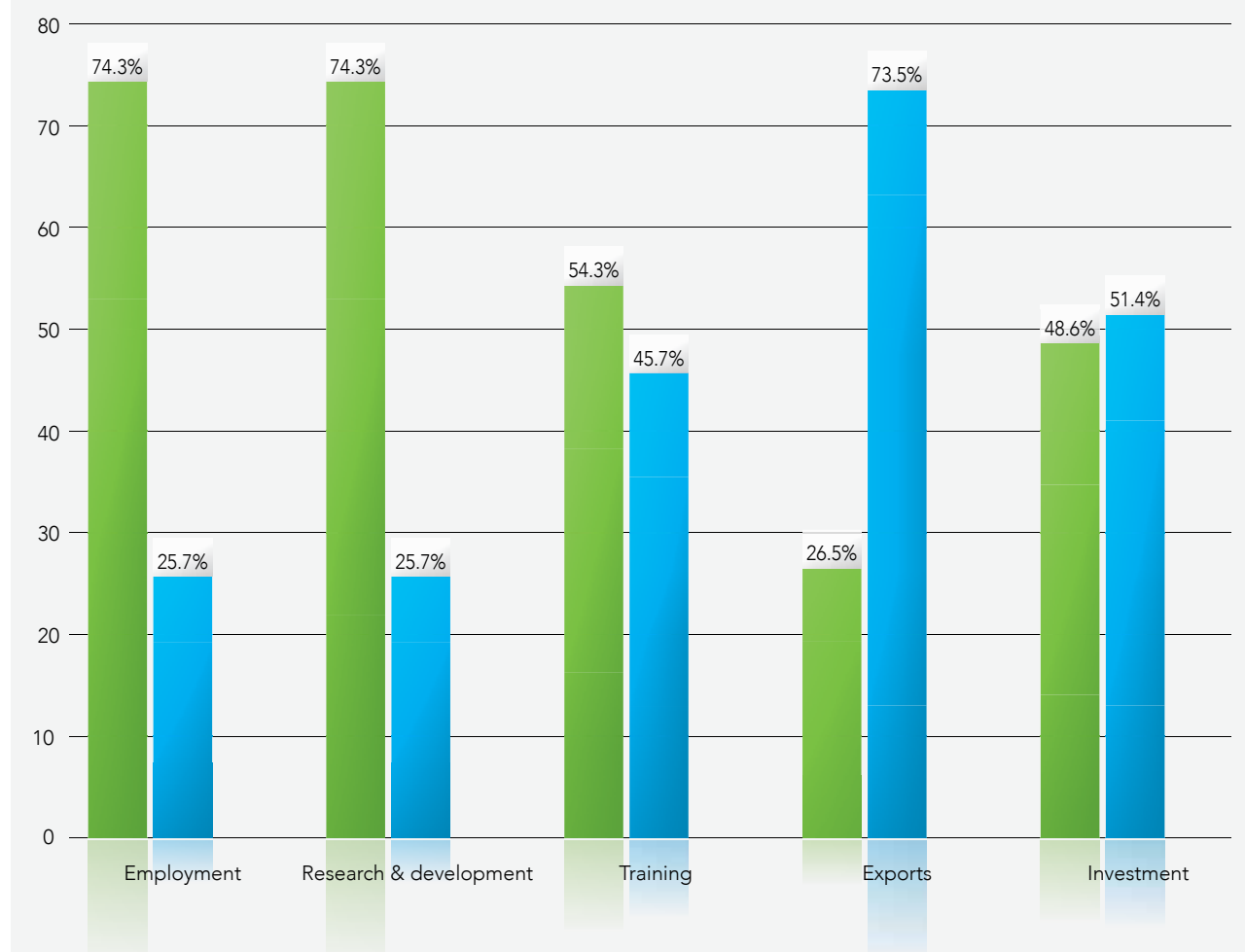


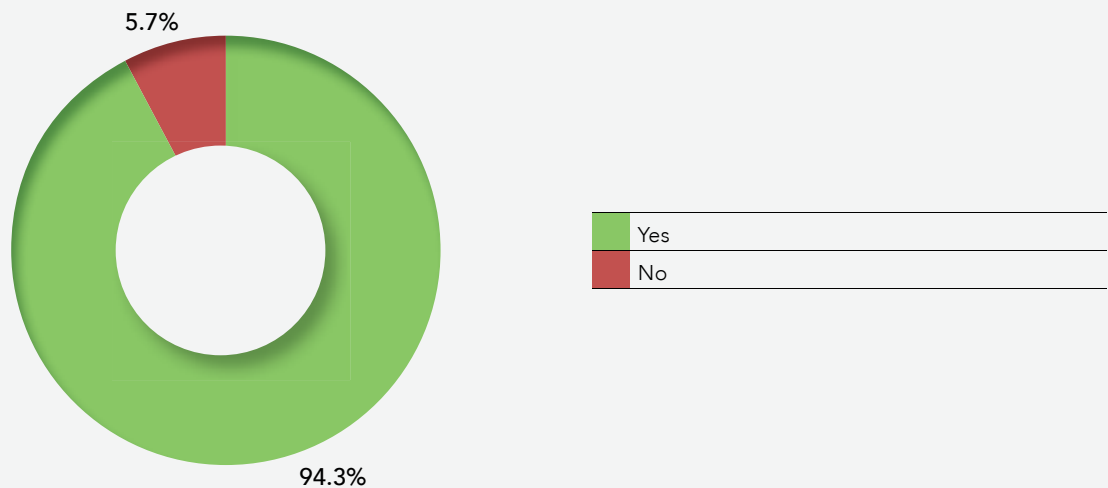
Fig 17: Overall impact on spending priorities, following VC investment



Active involvement of the VC investor

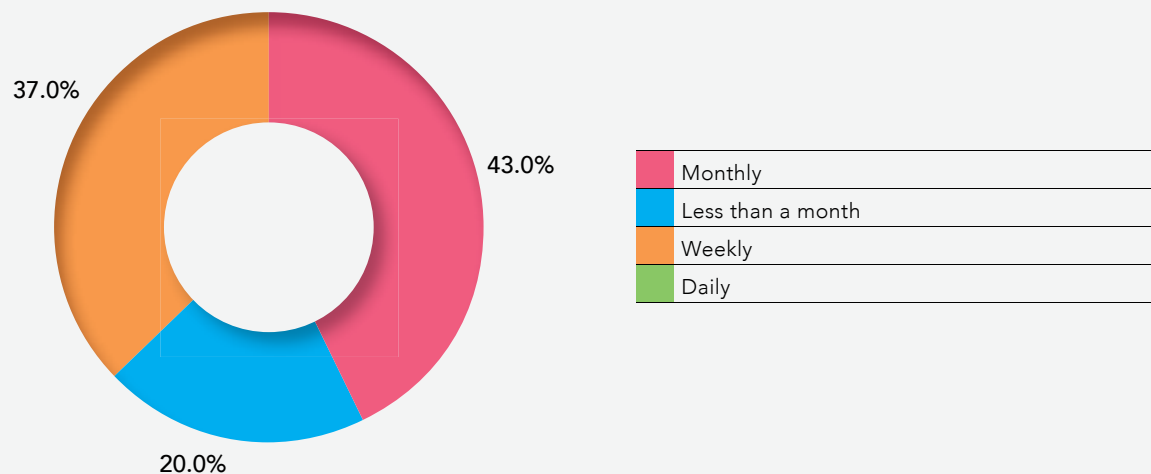
There were 94.3% of respondents who still had the VC fund manager invested in the business. This is to be expected as the largest share of respondents were still in the early stages of development at the time of investment, with only 11.4% in the latter growth stage.

Fig 18: Investor currently still invested in the business?



Early stage VC investors appear to be actively involved in their investments as all respondents reported having monthly contact with the VC investor, and 57% of those interacted with the investor more than once a month.

Fig 19: Contact with the VC investor



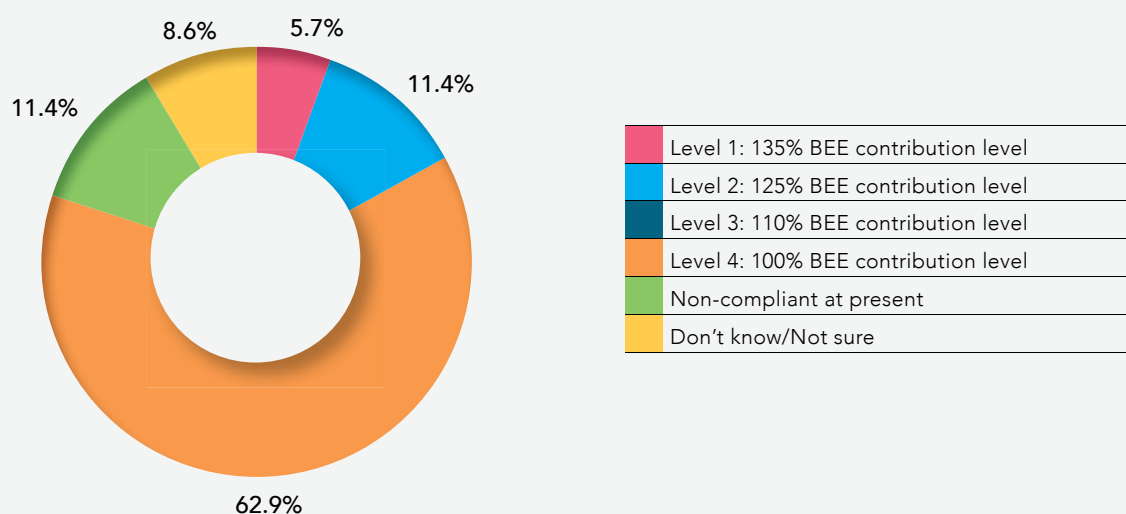
Background Characteristics

The respondents mirrored the main sectors of the VC asset class in South Africa with 31% active in activities typical of the ICT sector (software, security technology, electronics and telecoms selected by respondents) and 23% involved in manufacturing.

Almost all businesses were micro or small enterprises at time of investment, as per South African SME classification.

VC investment was furthermore used to ensure compliance with applicable BBBEE regulations, with only 11.4% indicating non-compliance, and 8.6% of respondents unsure as to their current BBBEE compliance level.

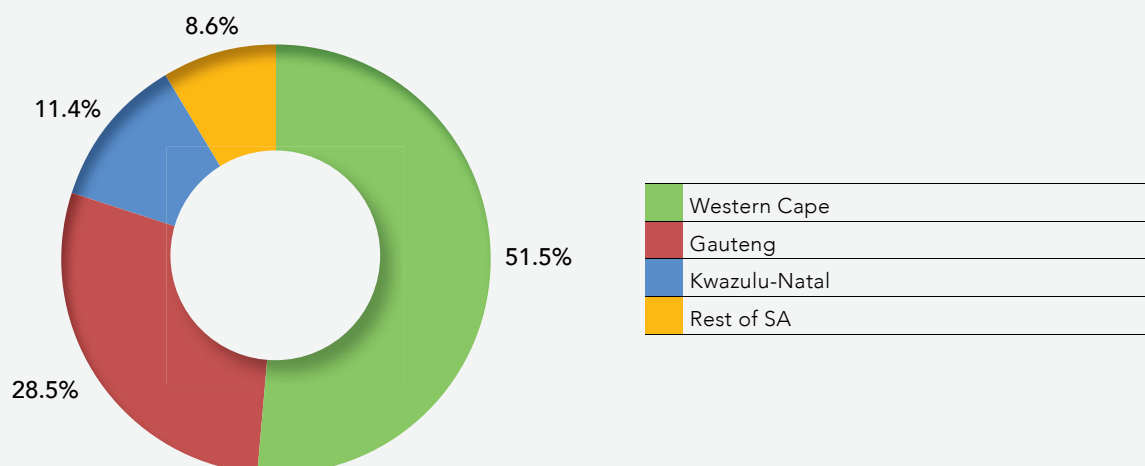
Fig 20: Current BBBEE rating of the investee business



Location

There were 51.5% respondents that had their primary location in the Western Cape, and 28.5% in Gauteng. This geographic representation correlates with location data of the broader South African VC asset class, including the fact that very few VC backed businesses can be found in areas outside of Gauteng and the Western Cape.

Fig 21: Geographic distribution of investee business





to a new level. **renew.** **imagine.** **strive.** **evolve.**

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