

Venture Capital Conference 2020 Highlights

Day 1 in Review: Venture Capital in Southern Africa Industry Conference, 25 February 2020, Cape Town

Delegates from across the Venture Capital (VC) ecosystem gathered yesterday at the exquisite Hazendal Wine Estate in Stellenbosch, for the second-ever SAVCA Venture Capital Conference. The annual event, which is now independent from the Private Equity Industry Conference, kicked off with a warm welcome from Lynette Ntuli, Founding Director and CEO of Innate Investment Solutions, and the MC for the day.

Introducing this year's theme of "**Connect. Collaborate. Commit.**" Ntuli said that the intention of the conference was to showcase the various aspects affecting the VC industry, with particular emphasis on opportunities to **Connect**, exploring ways to **Collaborate** and ultimately to **Commit** to the future and growth of the industry and the country.



Connecting the dots

The first speaker of the day – Sanari Capital CEO and Founder – Samantha Pokroy **connected** the dots by providing an overview of how a typical VC Fund in South Africa operates.

Pokroy outlined the basics of how the VC industry differs from the Private Equity (PE) industry; how the VC industry in South Africa operates differently to that in the US; and whether VC investing should be considered more of an art or a science.

"PE & VC are ultimately both about cash, but require totally different skill-sets – even though the steps in the value chain are the same," she said, when comparing the two asset classes that are more often than not lumped together as one.

Moving on to why local VC deals can't be compared directly to the US market, she said: "South African VC tends to be a little bit more conservative than the US – valuations are lower here. That being said, locally, VC really is on the up-and-up, and we are seeing increasingly more opportunities come to market."



Coping with Valuations, Part 1

Second on the agenda was Heleen Goussard, Head of Unlisted Investment Services at RisCura, who provided valuable insight into the valuation methods used by South African VCs and unpacked some of the latest trends in the sector.

"In the end, valuation is about opinion, and about understanding what assets are worth. To do this, we need to exercise judgement in a way that is independent," said Goussard.

Regarding the global trends that are influencing valuation, Goussard discussed the rising allocation to private capital; the rising valuation of private capital assets; a growing emphasis on ESG and

Impact; and capital concentration.



After exploring the ways in which VC valuation differs to PE valuation, she got stuck into explaining the key methods used to value VC in SA. Among these were Last Round Valuation/Waterfall; Option Pricing Model; Venture Capital Method; and the well-known Net Present Value Method.

“Liquidity has been quite tight in South African private markets, but it’s important to remember that all you need is one, reasonable willing buyer,” said Goussard.

Coping with Valuations, Part 2

Up next was the first panel discussion of the day, moderated by Kashira Naidoo, Investment Professional at Nedbank CIB Venture Capital and Alternative Investment. On the panel, Heleen Goussard was joined by Anton van Vlaanderen, a Partner at 4Di Capital; and Jeff Miller CEO of Grovest.

Tasked with exploring the practical application and potential challenges of the valuation methods used within the VC ecosystem, the panel was in agreement that VC valuation is not an exact science. “For early stage investments, the valuation comes down to a discussion with the founders and is often based largely on the strength and experience of the team – it’s more of an art than a science,” said van Vlaanderen.

Miller echoed this sentiment, adding that there is no one size fits all when it comes to VC valuation. “We prefer to do our own worksheets and analysis to get down to some sort of sound valuation, but this involves a discussion with the founders that takes into account all the softer issues as well,” he said.

While agreeing that there is no exact science of performing a VC valuation, Goussard highlighted the importance of realistic projections, though she admitted that it is difficult because VC's don't have sight of the risks. "Research tells us that 80% of all revisions of forecasts will be downward. From our point of view, a major part of the process is therefore bringing reality into a forecast."

To round up an insightful session, Miller quoted the great Warren Buffet on the topic of valuations by saying "I'd rather pay a fair price for a wonderful company, than pay a wonderful price for a fair company".

The Cornerstone of the ecosystem: Capital Raising

Local VC veteran and CEO of FyreFem Fund Managers, Cathy Goddard was next on the stage, moderating a panel discussion on the funding gaps that currently exist in the South African and African VC ecosystem.

From the perspective of a fund manager, Claudia Manning, Principal at the SA SME Fund, touched on the reality that VC is still not perceived to be an attractive asset class by the majority of South African investors. "It's tough raising capital for something that is largely still an unknown asset class. We need to ramp up our education for institutional investors so that we can begin to attract real funding."

Of the opinion that VC education is often lacking on the side of the entrepreneur as well, Dr. Jonathan Marks, Senior Lecturer of Entrepreneurship at GIBS, said that there is generally a poor understanding among entrepreneurs of how to engage with investors. "There is definitely a mismatch that exists between entrepreneurs and funding, and the only way to bridge this gap is through education for both sides."

In addition to more capital, Manning said that there is also a need for more fund managers who know what they're doing and offer another door that entrepreneurs can turn to. "We need a multiplicity of good fund managers that create a better ecosystem."

Speaking from the standpoint of an institutional investor that invests across the African continent, Isabelle Bebear, Head of International and European Affairs Department at BPI France, noted the crucial need to put measures in place to promote entrepreneurial activity and normalise the funding of early-stage entrepreneurship.

"We must remember that the South African VC industry is very young, so few GPs have full-cycle experience. There are, however, a lot of opportunities available. It is important to therefore match people with VC experience, with those who have African experience," she said.

When asked what South Africa could learn from the VC ecosystems in other countries, Marks points to Estonia, Chile and Israel as three countries that have done exceptionally well in terms of building a robust VC ecosystem. "From these countries, we see what a big role Government and public perception play in promoting entrepreneurship as a viable career path. In Israel for example, entrepreneurship is hailed as a heroic career path, and we need to do the same here."

On the topic of what Government could do to drive a robust VC ecosystem in South Africa, Manning quoted some simple statistics to show how a small allocation to first loss capital could go a long way. “The South African pension industry is worth roughly R4 trillion. If we have 10% of 1% of this dedicated to VC, we will more than triple the VC industry.”

FIRESIDE CHAT: The Pieter de Villiers Story

Today, Clickatell is a global leader in mobile messaging and transactions, powering chat commerce by helping brands to reach and engage customers through SMS, WhatsApp and other social channels. 20 years ago, however, it was just an idea that Pieter de Villiers – an optometrist at the time – began exploring with his twin brother and two friends.

De Villiers, Clickatell Co-Founder and CEO, sat down with SAVCA’s very own Melanie de Nysschen to fill in the gaps of this local entrepreneurial success story. “The idea was simple; we wanted to find a way for the internet and cellphones to communicate with one another. The name says it all: Click for internet; tel for communication – the business was bridging the gap between the two.”

This seemingly simple notion of sending an SMS from the internet to cellphones sparked a global revolution in digital communication and the company has gone from strength to strength ever since.

In 2006, de Villiers moved to Silicon Valley when Clickatell acquired a business in the US, but a decade later, he moved back to Cape Town, to be closer to the action in emerging markets. It is around that time that he launched SiMODiSA - which looks to engage senior Government officials and amplify the work of entrepreneurs in South Africa.

“We firmly believe that entrepreneurs create jobs, and that jobs are truly what people need right now. So at SiMODiSA, we work with a clear development programme to promote employment created in the entrepreneurial space,” he said.

When asked what’s next for Clickatell, Pieter said the company is looking to explore real-time, micropayments and electronic bill payments driven by personalisation, context and mobile identity.

FIRESIDE CHAT: The Ego Iwegbu Story

Next up on the fireside chat couch was Ego Iwegbu, Co-Founder and CEO of Miss Salon London & MSLONDON Cosmetics, who was interviewed by none other than SAVCA CEO, Tanya van Lill. During the cosy session, Iwegbu explained how she went from being a mathematics graduate in the UK to a salon and makeup brand owner in South Africa.

Coming from a very academic family, Iwegbu said that not having a degree was not an option. “Even though I knew I was going to be an entrepreneur, I needed to get my degree first. I always found mathematics easy, so this was the obvious option for me.”

Upon graduating and realising that a nine-to-five job was definitely not for her, Iwegbu opened her first nail bar – called Nail Haven – at the age of 27 in London. Unfortunately, Nail Haven came to an abrupt end in 2005, all but bankrupting her after she was unable to raise cash, but this wasn’t the

end of Iwegbu's entrepreneurial journey. In 2006, her next business, Miss Salon – a consultancy nail and beauty business – was born, still a successful business today.

Iwegbu said that Miss Salon London came about after relocating to Cape Town with her family in 2010. "I looked at some South African beauty salon chains and spas around Johannesburg and experienced their product offerings. In January 2011, I was offered the opportunity to take over an existing nail salon site in Morningside Shopping Centre, and with a friend, we embarked upon the new business venture."

While admitting that both countries have their drawbacks when it comes to funding, Iwegbu said that South Africa has a better appetite for entrepreneurship than the UK. "But America is still much easier to do business in," she reflected.

Looking back on her entrepreneurial journey, Iwegbu said that she would advise budding entrepreneurs to get as much practical experience as possible before taking the leap themselves. "If I could do anything differently, I would have spent more time as an intern before opening my own business. I would have learnt to walk before I tried to run."

Counting the Exits

It is an industry saying that VC exits are some of South Africa's best kept secrets. So to shed some light on the enigmatic topic, Langa Madonko, Investment Principal at Summit Africa, was joined on stage by Knife Capital's two Managing Partners, Andrea Bohmert and Keet van Zyl.

In a robust panel discussion, Bohmert and van Zyl used their practical experience and existing case studies to show delegates how an exit in the South African VC landscape really works. With Knife Capital's 65% success rate, if anyone knows, it's them.

"There are basically two exit routes in South Africa, a trade sale to a strategic buyer, or a management buyout (MBO). While everyone loves the idea of an IPO, this is unfortunately not really a realistic option for local VC exits," said van Zyl, who discussed five of Knife Capital's successful exits over the past five years.

When asked about the average timeline for a local VC exit, Bohmert emphasised that shorter is not always better. "The reality is that exits take time. It generally takes about three years to deploy the capital; and four-to-seven years to exit. Yet we often exit companies too soon because the other options aren't there," she said.

Why we are Committed to South Africa?

Up until this point in the conference proceedings, we had heard a lot about the challenges being faced and the hurdles that lie ahead for the local VC industry. So this begs the question: why do we remain committed to VC in South Africa? Answering this question was a panel of up-and-coming industry professionals, moderated by the dynamic Lelemba Phiri, Principal at Africa Trust Group.

Panellist Gavin Reardon, Managing Partner at Kingson Capital, said that it's important to understand that there's a natural cycle of VC and the industry in South Africa is still at a very early stage in this cycle. "We're here because we believe in the future of this local industry and the ability for entrepreneurs to solve African problems in the future. However, there are two things that most young entrepreneurs lack: confidence and networks."

Adding to Reardon's point, Thandeka Xaba, Co-founding partner and principal at Digital Africa Ventures, noted that in order to bridge the gap between these entrepreneurs and investors, the VC industry needs to be very deliberate about who they support and how they do this. "Great potential exists in South Africa, but we have to be very intentional about finding it and investing in it," she said. "Being a diversified manager, we are able to understand these problems, having lived through them and faced them on a day-to-day basis."

Thapelo Masoko, Portfolio Head of Industrial Supply Chain Funds at Edge Growth and Co-CEO of Edge Ventures, said that a key factor in doing this has been truly believing in entrepreneurship and wanting to have a real impact in the process. "This, however, is only one level of impact – others are job creation and black wealth creation," he said, adding that having systems in place to help investment and procurement readiness are critical.

Reardon rounded up the discussion by saying that, despite there still being a significant knowledge gap, one positive to note is that VC is becoming increasingly more widely accepted as an asset class. This, he said, is evident by the asset class being mentioned for the first time last year in Cyril Ramaphosa's address to guests at the SAIC – South African Investment Conference.

The Trillion Dollar COach

Next on the agenda was a live video interview with the insightful co-authors of *How Google Works* and, most recently, *The Trillion Dollar Coach* – a leadership handbook and tribute to Bill Campbell, who helped to build some of Silicon Valley's greatest companies and create over a trillion dollars of market value.

Alan Eagle, Director of Executive Communications at Google, and Jonathan Rosenberg, advisor to Google, shared their first-hand experience of how Bill Campbell developed trusting relationships, fostered personal growth, infused courage, emphasised operational excellence and identified the

simmering tensions that inevitably arise in fast-moving environments.



After getting to “e-meet” these two Google powerhouse authors, conference delegates were thrilled to find out that everyone had gotten a copy of The Trillion Dollar Coach in their conference goodie bags to take home and get stuck into.

SA SME Fund: Deal Announcement

To end the second annual SAVCA Venture Capital Conference with a bang, Ketso Gordhan, CEO of SA SME Fund, made a very exciting announcement about the launch of the first university technology fund in Africa.

This means that corporate South Africa, through its investment in the SA SME Fund, is enabling the commercialisation of technology innovations developed by SA universities through its R150 million investment into the University Technology Fund (UTF).

Gordhan explained that R25 million will be allocated to pre-commercialisation funding, which includes proof of concept and technology development support and R125 million for commercialisation.

“This investment is intended to unlock the vast potential located inside our world-class universities by commercialising South African technology. This will not only create viable businesses and jobs, but will also encourage a culture of innovation throughout universities in South Africa. We are exceptionally excited about the potential that this creates,” he said.

To celebrate this exciting news and the end of another successful VC conference, all delegates mingled the night away at a cocktail party sponsored by the SME Fund and Knife Capital.

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