AVCA Member Profile:
DOB Equity

DOB Equity is a growth equity funder investing in companies that positively contribute to a more social and sustainable society, and that deliver long-term profitability. The fund is an evergreen vehicle and all proceeds from investments are reinvested back into the fund, making DOB Equity a true long-term growth partner to portfolio companies.

We speak with Hedwig Siewertsen, Managing Director of DOB Equity, about investing in small-and medium-sized enterprises (SMEs) in East Africa.

Q: Tell us about your history and investment strategy.

A: DOB Equity (DOB) was created by a successful, entrepreneurial Dutch family, and the family remains DOB's sole capital provider. Our mandate was originally set to allow investment across the continent, but following a strategic review in 2011, we decided to initially focus on a single geographic area in order to have a better footprint and greater ability to achieve impact. We focused on East Africa for a few reasons: firstly, we already had three investments in the region; we had built strong networks from our prior experience operating in the region; and the similar legislation and trade regulations amongst the East African Community member countries made it an attractive region from an opportunity perspective. For this reason, we also felt that businesses we backed would not encounter significant barriers when scaling-up, and exporting products and services across the region.

We now base ourselves both out of Kenya and The Netherlands, and focus specifically on Burundi, Kenya, Rwanda, Tanzania and Uganda.

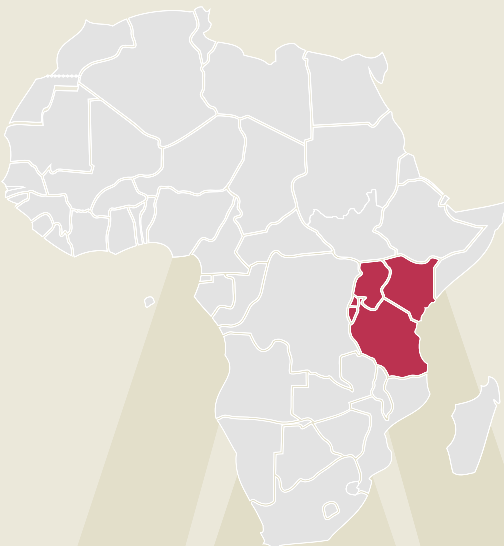
We decided to focus on sectors that were not already attracting significant interest from private equity investors and had a good potential for impact and growth, including agribusiness and food, clean energy, retail and distribution, waste, mobile technology enabled services, and natural resources.

General Partner Profile

Name of General Partner
DOB Equity

Fund
East Africa Fund (evergreen)

Country presence
Burundi, Kenya, Rwanda, Tanzania, Uganda



Q: What is DOB's motivation for investing in SMEs? How do you determine which companies to invest in?

Investing in SMEs can generate fast-growing, scalable companies that provide significant job creation. With our desire to contribute to a more social and sustainable society in mind, we look to invest in businesses that offer affordable basic needs products and services, or that add value to locally produced raw materials, and/or are able to substitute imported goods and services. We will typically make growth capital investments of between € 250,000 to € 2,000,000 (approximately US$ 316,968 to US$ 2,535,750) and target a total average investment size per company of €1 million (approximately US$ 1,266,185) over a three year period.

In terms of how we select potential target companies, we first screen entrepreneurs and management teams by ensuring they have a viable business with significant growth potential. There also needs to be an alignment between their goals and ambitions and the objectives of DOB's sponsor.

To date, we have invested in a diverse range of businesses, including:

- a Lake-Victoria based ferry operator (Globology);
- an online investment platform where people, businesses and institutional investors can make loans to small businesses in East Africa (MyC4 platform);
- a tea procurement, processor and exporter in Burundi (Prothem);
- a milk processing company in Tanzania (Tanga Fresh);
- a quality primary school education provider serving poorer communities in Kenya (Bridge International Academies);
- a mobile technology-based asset financier (solar home systems) in Kenya and Uganda (M-KOPA); and,
- a pan-African developer, designer and distributer of solar home systems (phone charging, lighting and other services) to mostly rural people that are off the electricity grids (Barefoot Power).

Q: Do you consider DOB an impact investor? What is your definition of impact?

We consider ourselves to be an impact investor, and our definition of impact is the delivery of a positive contribution to a more social and sustainable society beyond financial sustainability. We believe in entrepreneurship and economic development as instruments to enable individuals to improve themselves through increased income, job opportunities and/or access to affordable products and services.

Success Story

Company: Tanga Fresh, Tanzania

Sector: Agriculture

Entry date: 2007

Investment Size: € 3,450,000

Milk money paid to farmers (2007):
TSH 2,800,000,000 (€1,600,000)

Number of supplying farmers (2007):
3,000

Milk money paid to farmers (2013):
TSH 9,500,000,000 (€ 4,300,000)

Number of supplying farmers (2013):
5,860

How DOB helped the business

- DOB Equity's investment provided capital for refurbishment of the dairy factory, and the purchase of additional transportation vehicles for milk collection and distribution.
- DOB Equity established best-in class processing practice through the installation of new cooling facilities that improved the cold chain of milk from production to point-of-sale.
- DOB Equity's investment increased the income of almost 6,000 smallholder farmers in Tanzania.

Tanga Fresh, DOB Equity


Tanga Fresh, DOB Equity

For example, through our investment in Tanga Fresh, a milk processing company in Tanzania, more than 6,000 Tanzanian smallholder farmers have experienced an improvement in their income.

However, we've found that from an entrepreneur's point of view, it doesn't tend to matter what type of investor we are. Factors that our entrepreneurs consider important include the provision of flexible investment structures, ability to create value, and being a long-term partner. In turn, the combination of these factors ensures we achieve our goals.

Q: How do you create value in your investee companies?

As we primarily invest in family-owned businesses, we are typically the first sophisticated investor to work with the entrepreneur.

We engage with the management team early on a range of initiatives to help structure the company for growth. We work with management to improve the financial management of the company by harnessing the data. We provide access to a network of global and local partners who can provide management, operational and technical assistance. We also insist on the establishment of sound internal systems, and appropriate corporate governance, control and reporting structures.

These factors not only create value in our investee companies, they also prepare the business to be able to attract additional funding in the future.

Q: Any final words?

Private equity in Africa is nascent, and, for this reason, we find that not all entrepreneurs understand the asset class well. We tend to find this can result in a lack of availability of financial management information beyond what banks may require in the first instance. In addition, typical fund structures which require an exit within 5 – 7 years are at times not optimal for our investees as the process of deal execution, value creation and exiting often takes more time in Africa than in more developed private equity markets. Organisations such as AVCA should play an important role in addressing these issues, by profiling the benefits of private equity to businesses and entrepreneurs.

Contact AVCA

The Banking Hall, Cropthorne Court,
26 Maida Vale, London, W9 1RS

w: www.avca-africa.org
t: +44 (0)20 3632 0408
e: avca@avca-afrca.org

@AVCA_Africa
#AVCAAfrica