



# AVCA Member Profile: Cepheus Growth Capital Partners



Cepheus Growth Capital Partners (Cepheus) is a private equity (PE) fund manager established in 2016 to take advantage of growing investment opportunities in Ethiopia.

Founded by Ethiopian-born partners, Kassy Kebede and Berhane Demissie, Cepheus is raising its first Ethiopia focused fund to target the manufacturing, agriculture / agro-processing, and consumer service sectors.

Kassy and Berhane talk to AVCA about the economic and investment potential of their home country.

**Q: What was the genesis of Cepheus and why did you choose to set up the firm?**

**A: BERHANE:** I have worked in Ethiopia for many years, both on private equity projects and financial sector reform, on behalf of the government.

Last year we decided that there was a great opportunity for us to work together on investments in Ethiopia. In 2015, Ethiopia was the fastest growing economy in Africa, and one of the fastest growing in the world, with an 8.7% rise in GDP. It also has the makings of an exceptional private sector growth market, not least because it has a population of almost 100 million. We felt the country was ready for investment.

**KASSY:** Although I have lived in New York, London and Hong Kong during my professional life, I have always remained closely connected to Ethiopia - my family and many relatives still live in there. I have been involved in many non-profit activities in Ethiopia for many years, including as Chairman of the Fistula Foundation, which does a lot of work in-country and on the rest of the continent. Seeing first-hand the renaissance that was underway in the country, I felt the time was right for me to utilize both my network there and my investment expertise to contribute to the country's positive trajectory.

**Q: Tell us why Ethiopia's current economic position is so appealing?**

**A: KASSY:** The potential has always been there, particularly, given the demographics – 60% of the population is under the age of 25, the significant energy resources from the country's rivers and altitude, and the abundant fertile land. The government has built on that potential by doing an amazing job creating the right environment for businesses to progress: liberalising the economy, encouraging the

## General Partner Profile

**Name of General Partner**  
Cepheus Growth Capital Partners

**Funds**  
Cepheus Growth Capital Fund

**Regional Focus**  
Ethiopia



growth of the private sector, and developing the energy sector through expansion in hydro generation, which has made energy relatively cheap.

Crucially, the cost of labour – estimated to be one-eighth the cost in China – is also very low, creating a formidable competitive advantage for local manufacturing.

**Q: How have you seen the Ethiopian private equity industry develop and what are some of the highlights for you?**

**A: BERHANE:** The private sector was relatively young when PE investment started in Ethiopia, therefore it only created opportunities for investors with an appetite for smaller investments. With the country's economic growth and the development of PE, the Ethiopian environment is moving steadily upwards and we are now seeing larger ticket size investments. However, the majority of companies in Ethiopia are family owned, requiring greater levels of relationship and trust building for investors. This takes time, and as a result the number of deals that have been done in the country to date are fewer than might be expected in a comparably sized developing economy.

The highlight for me is that the Ethiopian market has become a market that investors can no longer ignore and we are seeing a significant number of informed investors looking to engage with the Ethiopian growth story.

**Q: What are your investment plans?**

**A: KASSY:** We are currently raising our first Ethiopia focused fund, targeting US\$100mn with a first close planned at circa US\$45mn. We are talking to a range of private sector investors, as well as development funds, and some of our conversations are very advanced. Liliana Rauch, our new Chief Operating Officer and I are based in New York; this will help us to strategically fundraise.

We plan mostly to take minority stakes with a strong degree of influence, but there may, on occasion, be compelling cases to purchase majority stakes. We aim to concentrate on small and mid-sized enterprises, with typical investment sizes of

between US\$3mn to US\$10mn. We see appeal in manufacturing sectors, such as fast-moving consumer goods, agriculture / agro-processing and in service industries, such as healthcare.

**BERHANE:** There are a lot of low-hanging fruits for both exports and import substitution. Historically, Ethiopia has been a huge importer of many goods which it should be able to produce for itself. For example, we import much of our tomato paste and ketchup all the way from Italy, because we currently do not have factories and / or the necessary facilities to process our own tomatoes to meet market demand levels.

**Q: What distinguishes Cepheus from other fund managers in Africa and how do you plan to add value to your investments?**

**A: KASSY:** We believe our reputation and the strong network we have with local entrepreneurs, and their trust in our capability and motivation puts us in a different category. Most of the SMEs in Ethiopia are family owned businesses, which have strong product lines but have not yet developed to the extent of their potential. We want to help them expand and succeed. It's not a question of throwing money at them; we want to introduce them to modern management techniques to help them compete on the same level as their developed-world counterparts and to partner with them to build sustainable growth. Their trust, again, is crucial.

**BERHANE:** We are locals, Kassy and I. Kassy is in Ethiopia every four to six weeks on average, and the majority of our team is based in Addis Ababa full-time. We have long-standing relationships with the private sector and a competitive understanding of how the government works. Our team is comprised of seasoned investment professionals who understand what investors and businesses require.

**Q: In your view, why should investors take action now, rather than waiting a few more years for the Ethiopian economy to develop further?**

**A: BERHANE:** Ethiopia is a distinct country, with a unique people, a special and very old history and exceptional investment opportunities. The market is not saturated yet, so entering Ethiopia early allows us to take full advantage of the potential.

**KASSY:** In four or five years' time, multiples will be much higher as more private equity firms arrive and successfully complete deals in the country. Investors who put their money in now will be able to enjoy strong EBITDA growth and multiple expansion

## Contact AVCA

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

+44 (0)20 3632 0408  
www.avca-africa.org  
avca@avca-africa.org  
@AVCA\_Africa  
#AVCAAfrica