African Private Equity and Venture Capital Association

THE ABRAAJ GROUP

MEMBER PROFILE

Sev Vettivetpillai
Managing Partner

The Abraaj Group (Abraaj) is a leading investor, purpose-built for operating in the growth markets of Africa, Asia, Latin America, the Middle East, and Turkey. Abraaj has realized US$6.3bn from over 80 full exits, and funds managed by the group have made over 170 investments across a range of sectors including consumer, energy, financials, healthcare and utilities. The group is committed to the highest environmental, stakeholder engagement and corporate governance standards and is a signatory to the United Nations-backed Principles for Responsible Investment and the United Nations Global Compact.

AVCA speaks to Sev Vettivetpillai, Managing Partner, about the importance of partnership-focused investing in Africa, and best practices in exit planning.

THE ABRAAJ GROUP

GENERAL PARTNER
The Abraaj Group

GEOGRAPHIC FOCUS
Pan-African

FUNDS
Abraaj Africa Fund III
Abraaj North Africa Fund II
Aureos Africa Health Fund
Aureos Africa Fund
SGAM AI Kantara
Aureos Southern Africa Fund
Aureos West Africa Fund
Aureos East Africa Fund

Q: Abraaj has emerged as a global leader in private equity over the past 15 years and is pursuing an ambitious growth strategy across several emerging market regions. People often talk about Africa as a "unique" market, even compared to other emerging markets – do you agree?

A: It is always at the forefront of our minds at Abraaj that the African continent comprises 54 markets and cannot be treated as a monolith. Each country has its own unique local nuances, and simply put, understanding these factors helps in identifying great sectors and businesses. Some of these countries have high-performing capital market economies, whereas others remain under-penetrated and under-developed in many ways. That provides many opportunities for those who are willing to do the hard lifting, to spend money and time developing companies by investing in high quality management teams. With that said, these disparities are not unique to Africa. In Latin America and South-East Asia, for example, we also find countries at various stages of development, although their economies are broadly more advanced. Africa is a continent of opportunities for those who are willing to rise to its many challenges and devote money and time to its growth.

Q: Abraaj has invested US$3.2bn in over 80 companies in Africa over the past 15 years – a phenomenal pace for capital allocation. Tell us more about the firm's approach to investing in Africa compared to other regions, in terms of deal size and local presence.

A: The pace of capital allocation in Africa is different compared to other emerging markets, and there are various hurdles to overcome when deploying capital in Africa's private markets.

Firstly, information is difficult to access and usually opaque. Secondly, finding quality advisors to support transactions could be challenging. Generally, African deals tend to be smaller in size, which amounts to more deals overall when compared with Turkey or the Middle East, for example. What I would say, however, is that Africa tends to be fairly aligned with South East Asia when it comes to deal size. Within Africa, South Africa is comparable to Mexico or Indonesia, whereas Kenya is arguably more similar to Colombia, Peru, Vietnam, and even the Philippines.

For Abraaj, the main difference between us and other emerging markets-focused fund managers is our African footprint with 7 offices and nearly 100 professionals on the ground. Over the years, we have realised that heavy local presence is a key component to successfully investing in Africa.

Q: Abraaj talks about partnership capital and the importance of acting not just as investors, but as business builders – can you explain this approach and the value it unlocks for you?

A: Partnership capital is a key pillar of how we invest and generate returns. Our value proposition is to help grow businesses through strong partnerships, based on mutual agreement and commitment to taking the company's growth further. It goes far beyond providing capital.

Our decision to invest really pivots on what the company's present-day value and market position are, and how much we can grow the company in 5 years, with consideration for the team and its market positioning. Once we identify the growth potential, our next step is to ascertain the company's capabilities and areas in which Abraaj can add value to drive growth.

Abraaj's value addition to partner companies lies in facilitating access to a broader network, (new) markets, and/or finance. We find that access to new markets is the single largest contributor to value. In North Africa, we invested in a hospital in Egypt and expanded the group across the region. Abraaj had the advantage of knowing who to approach and how to mitigate the risks of cross-border expansion, given our history across the continent. In 2014, we bought Libstar, a South African FMCG company, from another PE firm. One of the challenges was taking Libstar into new markets beyond South Africa.

At the time of our investment, less than 5% of Libstar's total revenue was from outside South Africa. Today, that figure is over 35%. These are examples of how value is generated through a model that puts partnership and alignment at its core.

Q: Tell us about Abraaj's experience with exits. Are there any common themes in terms of best practices or lessons learned from exiting African investments?

A: The experience we have had with exits does not entirely depend on whether investments are majority or minority stakes. In fact, it is about how well are we aligned with the other shareholders and the management team. In terms of holding periods, Africa is not very different compared to other markets, and it generally takes between 6 – 12 months longer on the continent. We have been able to exit much faster with satisfactory terms in situations where we played a very active role in a partner company, with the support of either management teams or the founders themselves. Overall, we observed that in instances where we have had good partnerships, the results have been significantly better.

In an ideal world, the exit plan should be in progress from the very start of the investment period. For us, this is a focal point of the initial discussion with the partner, and we regularly revisit it throughout the investment partnership. Most of our partner companies are quite comfortable with these conversations, and they usually understand the typical private equity investor/business-owner relationship. For business-owners who are receiving private equity funding for the first time, we find that they usually want an exit strategy as well. It's about being aligned upfront. Having this conversation tends to ease tension and, really, forms part of the negotiation.

Q: You joined the firm following the Aureos acquisition 5 years ago. Please tell us more about how Abraaj has capitalised on Aureos' niche expertise in SME investing in emerging markets to grow its portfolio?

A: Abraaj has hugely benefitted through the Aureos Partners acquisition. I would like to reiterate that rather than selling out, they were actively looking to add fire-power to their plans.

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During the first 18 months, there was no fundraising on our part; what we focused on was internally harmonising and integrating our policies and our people. Our current success can be attributed to the initial time we dedicated to developing leadership. We were conscious that it was quite an unusual approach, but it worked well. Twelve months after the merger, we realised that uniting the brands would bring added advantages, and we decided to go with The Abraaj Group. Today, Abraaj is able to cover a wide spectrum of companies and sectors across emerging economies, and maintain diversity in its portfolio ranging from US$30mn to US$300mn deals.

Q: With the recent investment in Java House, there have now been four transactions from the third Sub-Saharan Africa Fund (US$990mn). Which themes, geographies or sectors do you see as most compelling for further deployment of the fund?

A: We are now looking to expand Java House into East Africa both geographically and concept-wise. We are also considering acquiring existing casual dining companies and creating new consumption businesses. Abraaj has already bought casual dining companies in Indonesia, Peru, Saudi Arabia, and Singapore, and we know a lot about this sector. As a result, we are very excited about Java House and believe we can add tremendous value, particularly by introducing brand new concepts in Africa.

Geographically, we think it is important that we invest in tier 1 and tier 2 cities. The strategy is to start in urban areas and roll out into tier 2 cities to allow greater scale and profitability. We need to be coming up with consumption driven business models that cater for mass markets and the middle-income level while looking to the lower end as we scale up.

Q: There is an ongoing conversation around the growing middle class in Africa. What are your thoughts on this phenomenon?

A: When talking about the middle class, access to product is one issue, while affordability is another. Accessibility is certainly improving, supported by better infrastructure; whereas affordability naturally improves with access and can be addressed through informal and formal channels. In the past, we used to start with the lower end of markets and build scale from there, but now it is the other way around with a focus on cities where the bulk of the existing middle class is. You pick granular level trends such as GDP growth, city growth and sector growth, and use them to demonstrate business opportunities. On one hand, you are looking at services; on the other, you are looking at growth. Java House is a notable example with its growing base across East Africa and the opportunities that emerge from it such as the introduction of local brands to sit alongside the company.

Q: In North Africa, it has been observed that it is re-emerging as a more robust region, ripe for ongoing investment. How has Abraaj weathered the storm and managed investments in North Africa dating back to 2004, while consistently building the firm's portfolio?

A: North Africa is not very different from other regions in terms of its cyclical nature. Many investors pulled out following the Arab Spring, and that was precisely when Abraaj started buying. Healthcare, education and food – all non-cyclical industries – are always needed by people. During such events, it is not unusual for growth to slow down; however, the opportunity often lies in one's ability to buy low and observe for an uptick in growth. At Abraaj, we are wary of these issues and we factor risk into our thinking and strategy.

We tend to group healthcare and education together, and usually adopt a similar approach through building critical mass and expanding rapidly into key markets. Our success in healthcare is a result of our investment model. We have strong deal-making capabilities and sector specialists who have previously run businesses in the health sector. In one of the North African hospital groups, we brought in a former Chief of Operations from a hospital we sold to IHH Healthcare Berhad in Turkey. He was able to contribute his industry knowledge and operational expertise to drive growth. Today, Abraaj has a pipeline of 10-12 assets and a speed of execution that is unique to us. There are many investors looking at health and education opportunities now. Abraaj has been investing for years, notably with GEMS Education, which turned into a global business with 10,000 schools and over 100,000 students. Just as in the health sector, we bring in experienced management teams, local knowledge, and the much-needed capital to support growth.

Q: Looking ahead, what does the future hold for Abraaj in Africa?

A: Africa is a very important market for Abraaj. We believe we will make a difference in the market by investing well, creating household names and leaving a good legacy. We remain 100% committed to Africa.

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