African Private Equity and Venture Capital Association

# ACTIS

MEMBER PROFILE

**Natalie Kolbe**
Partner,
Head of Private Equity

**David Cooke**
Partner, Private Equity

Actis is a leading investor in growth markets across Africa, Asia and Latin America, delivering consistent, competitive returns in a responsible manner, through insights gained from trusted relationships, local knowledge and deep sector expertise. Founded in 2004, Actis has an unparalleled heritage in growth markets, set within a culture of active ownership. Since inception, the firm has raised US$13bn, operating across 13 offices globally.

**AVCA speaks to Natalie Kolbe, *Partner, Head of Private Equity* and David Cooke, *Partner, Private Equity*, about the benefits of consumer-led investing, strategic alignment in exit planning, and scaling African businesses through private equity.**

**Q: Tell us more about Actis' evolution since it was founded in 2004.**

A: Since Actis was founded in 2004, the team has shifted strategy from a generalist regional approach to a global sectoral approach, allowing us to spot emerging trends across all our markets and harness the relevant specialist expertise across the group to pursue investment opportunities. Our current capital in Fund IV is global and we are investing exclusively in consumer businesses, healthcare, and financial services. Focusing on specific sectors means that we can deliver better returns for investors by deploying niche industry expertise honed in one emerging market – say Brazil, China or India – across multiple markets in other emerging regions such as Africa, to create scale at pace.

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**Q: How is private equity (PE) suited to developing home-grown, African businesses into strong, scalable companies?**

A: Private equity is a great model for building scalable businesses, and a buy-and-build strategy can unlock tremendous value in a short amount of time. Interesting African businesses could be of smaller scale, so you need to buy a market leader in a certain vertical and then bolt others on to scale up and make the company attractive to a future, potentially bigger buyer. For example, we built Emerging Markets Payments (EMP), the largest payments platform in Africa, by consolidating payments businesses in Egypt, Jordan, South Africa, and expanding in East and West Africa.

In the highly fragmented education sector, businesses are often small so you need to build a platform to create sufficient scale to attract future buyers. With a recognised brand, you can build something interesting, particularly in the tertiary sector. Our ability to create strong education platforms is attractive to founder-owners who are often national market leaders, but may struggle to position themselves to take advantage of opportunities they can see beyond their home market.

With the Honoris United Universities deal this year, we identified an increase in demand for high quality, affordable tertiary education across Africa. As we explored the opportunity, we observed a gap for a large player in the market so we invested in order to connect like-minded entrepreneurs through a consolidated platform, giving education entrepreneurs the opportunity to achieve their education dream and deliver against their commercial goals to expand.

This is tough for founder-owners to do alone, so Actis brings the advantage of understanding the sector so we can identify opportunities, speak the entrepreneurs' language, and connect them with the right growth opportunities in other markets across Africa. In theory, this is a simple strategy, but as with building any sustainable business of scale, the practicalities can prove more challenging to tackle. At the end of the day, it is not simply about structuring deals, it is also about alignment with partners and drawing on our experience to make the right judgement call.

**Q: A lot has been made of the growing middle class in Africa over the past decade. How do you see this trend evolving, and how does it inform Actis' investment decisions, particularly in consumer-led sectors?**

A: It is well known that the hype around the Africa growth story has been more subdued over the past couple of years, compared to 4-5 years ago. However, everything that Actis does is underpinned by two fundamentals working in tandem: the rise in infrastructure spend (both hard and soft), and the rise of the consumer class. The 'middle class' means different things to different people, but the increase in consumer spending is undeniable and driven by measurable trends such as urbanisation and the rise of mega cities, the demographic dividend, improvements in productivity, and better access to power. We are seeing tangible impact in our priority sectors due to these trends. In financial services for example, the transition from cash to e-payments is driving our buy-and-build, roll-up strategy. We have recognised increasing consumer preferences for modern retail facilities and parents' rising aspirations to provide for their children, and we have leveraged our PE and real estate capabilities to develop the continent's top shopping malls. The art of successful investing in Africa is discovering the underlying trend and identifying and building the right individual businesses to create value and impact.

**Q: How do you see the continent evolving in the coming years – will we continue to see pockets of high growth and areas of stagnation or do you see a more balanced development trajectory emerging?**

A: Africa is certainly moving in the right direction but this process is not always linear. There will continue to be volatility, although the long-term trend is towards growth.

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Africa has the youngest population in the world and over the next few years, these young people will move into the workforce and drive the consumer proposition on the continent. The political systems are mostly moving in the right direction through free and fair elections and power transfers with the odd bump in the road. There will be occasions when certain markets have issues while others flourish. The key is to choose sectors focused on the consumer, and not be distracted by the media headlines. People will need to do basic things regardless of the political situation — eat breakfast in the morning, take the kids to school, pick up pharmaceuticals from the hospital, and increasingly they may desire to eat in a restaurant, perhaps paying with a credit card. The sectors we invest in are supported by specific sector growth trends and not just macroeconomic indicators.

On the regulation side, we are more sheltered in that our businesses are affected more by the consumer than by governments. We find that policy implementation in our sectors often happens slowly. Policies do change, and although consumer sectors are shielded from regulation, they are not fully protected, so it is essential to understand regulatory plans and make investments that are aligned to minimise any risks.

**Q: Actis is a major investor in social infrastructure, demonstrated by Honoris, the pioneering pan-African higher education platform worth US$275mn and spanning 9 countries. Actis is also an important investor in physical infrastructure. Do you see any strategic links between the social and physical infrastructure you invest in?**

A: We spend a lot of time thinking about how to leverage the Actis platform across asset classes and this is a real differentiator for us when engaging entrepreneurs. For example, we have created a link between our retail investments and our real estate businesses such as Tekkie Town and Food Lovers Market. The founders and Chief Executive Officers of those businesses chose Actis due to our thorough understanding of the real estate business.

Due to our extensive experience in the sector, we understand modern retail considerably better than any other investor in Africa, and we bring that knowledge to portfolio companies. To create synergies between our energy and education businesses, we invested US$250mn in the Cameroonian power sector via ENEO through our energy fund. Our education platform Honoris has a team in Morocco, where they are now working with the Cameroonian team at ENEO on employee training and, in the process, deepening Honoris' market insights into Cameroon.

**Q: Actis closed its fourth energy fund over the hard-cap at US$2.75bn – where are the most exciting energy investment opportunities in Africa?***

A: There is increasing appetite for private sector investment in energy across Africa. For us, it is one of the most exciting geographies in the Actis universe due to the current state of the energy sector. The continent is generally low on energy supply, and there is limited accessibility to electricity, which means that there are high levels of electricity demand. Notable examples of private sector involvement in African energy include the ongoing privatisation of the Electricity Corporation of Ghana (ECG), South Africa's renewables programme, which has seen nearly 4GW of wind and solar generation delivered to the grid by the private sector over the last 5 years, and new momentum in markets such as Egypt, Ghana, Kenya, Nigeria, and Senegal, where renewable energy has become mainstream.

Actis invests in two key sectors in the energy industry: generation and distribution. We have a buy-and-build strategy in generation, and we have established and built 12 generation platforms over the last 15 years. Of those 12 platforms, 3 of them are in Africa. In the energy distribution sector, we invest in high growth monopoly businesses, either via acquisition or privatisation, and our strategy is to drive operational improvement, optimise financing, and invest in new connections and growth. In both cases, we contribute to the provision of a reliable, sustainable energy supply, which drives economic development and wealth creation.

**Q: 90% of the power generation from Actis' third energy fund is from renewable sources of energy. How do you see this sector developing in Africa – where are the most interesting opportunities?***

A: Generally, we see interesting opportunities for renewable thermal generation as well as distribution investment across Botswana, Côte d'Ivoire, Egypt, Ghana, Kenya, Nigeria, Morocco, Senegal, South Africa, and Tunisia. The flagship for the African renewable sector is South Africa, where a large, well-managed auction process with a very clear framework has attracted significant private sector investment over the last 5 - 7 years.

However, with renewable energy becoming cost effective compared to other sources of generation, other countries have followed suit, looking to reduce sector price volatility and to develop their own natural resources. Examples include Egypt, Ghana, Kenya, Nigeria, Senegal, and Tunisia. If you need evidence to support this point, you need only look at the tariffs bid recently in Saudi Arabia at ~1.8c/kWh.

There are formidable wind and solar resources across the continent - particularly Egyptian, Kenyan, and South African wind, and Moroccan solar. However, with increasingly sophisticated turbine models that can address localised and lower wind conditions, and more efficient and cost-effective solar technologies, it feels as though there is a renewable energy opportunity for everyone, and we are excited about that.

**Q: Actis has completed over 200 transactions since its inception and over 160 exits across its global portfolio. Why are the African exits crucial for Actis' track record?**

A: We believe that the exit is all about the *entry*. Actis has always focused on investing in good businesses to maximise the pool of potential buyers at exit stage. This goes a long way in explaining our prolific exit rate. At the point of making the investment, we focus on the exit plan to ensure alignment with the partner company. Experience has taught us that you can have good management and business credentials on paper, but without actual alignment on the timing and structure of the exit between the partner and investor, the exit may be difficult to achieve. We have walked away from situations where the investment seemed great, but we did not have a shared view on what the exit should look like. Being able to make a judgment call on this comes through extensive experience.

Conflicts tend to occur, which may ultimately extend the exit period or affect the returns, so the more time we spend building common interests at the start of the relationship, the better our ability to de-risk the exit. We have a disciplined approach and have been able to exit through IPOs (consumer goods company **Edita**, in Egypt, financial services company, **Alexander Forbes** in South Africa, and electricity distribution company, **Umeme**, in Uganda and Kenya), and through strategic exits to international, regional or financial buyers such as private equity investors on the continent.

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*These questions were answered by Lucy Heintz, Partner, Head of Africa Energy

While political events may affect exits, we have not found the African environment any more difficult for exits compared to other markets. Yes, political risk is a factor we carefully consider, but we usually see this as more of a temporary blip rather than a lasting barrier to investment. We often view political upheaval as a good time to enter a market – and we find that we have had the best returns in some of our contrarian investments. For example, we invested in Edita in Egypt during the revolution, and exited with a 2.5x return to our investors.

**Q: 3,238 jobs were created by Actis' companies in 2016. How vital is it for the PE industry to respond to the jobs deficit in Africa, and which industries and sectors do you see having the greatest impact?**

A: As an industry, we can – and must – do more to highlight our impact in terms of job creation. Actis tracks job creation on a quarterly basis and we strive to create jobs in every investment we make. Our portfolio companies employ 116,550 people globally. But it is not just about increasing the numbers of jobs – the real challenge is to train and educate people, which improves lives.

Our investment thesis is driven by identifying the most compelling growth opportunities. This is the biggest difference between developed and developing markets. Developed markets focus on unlocking efficiencies, while the emphasis in Africa is on creating sustainable and scalable businesses whose growth will create jobs. For example, Kenya's construction industry output has risen on average by 13% year on year since 2014. There is an estimated gap of about 30,000 engineers, 90,000 technicians and 400,000 artisans, with the shortage of mid-level technicians and artisans hampering the country's economic growth prospects.

At the same time, Kenya is experiencing high youth unemployment – 80% of those unemployed are below the age of 30. As a prominent real estate investor, Actis sought to contribute towards the growth and quality of the construction industry, helping to bridge the skills gap by partnering with Arc Skills to offer internationally accredited training to 300 young people selected from different community based organisations in the informal settlements around the Garden City Mall in Nairobi. The mode of training is practical and modular, with the entire training taking place on live construction sites. At the start, 41% of attendees had never been employed, and by the end of the period, 46% of those who completed the course were in employment.

**Q: What are the key priorities for Actis over the next 12 months and what are the milestones you are working towards?**

A: We are a multi-asset class investor so there is a lot going on across the business.

We are currently investing the final capital from Fund IV, and will be focusing on sectors where we have expertise in – healthcare, consumer, and financial health – and looking to maximise growth trends.

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