Catalyst

SA's quarterly Private Equity & Venture Capital magazine

Vol 20 No 1
MARCH QUARTER 2023

The new barbarians

Private equity and business rescue swipe right

S12B the new S12J?

FROM THE EDITOR'S DESK

In the realm of finance, public equity markets have hogged the headlines of late, leaving their private counterparts in the shadows. Yet, as any seasoned observer will tell you, appearances can be deceiving. While private equity markets remained seemingly impervious to the choppy waters of their public counterparts, the US Federal Reserve's historic interest rate tightening has caused ripples that are now beginning to crest.

The result? Monetising holdings has become increasingly difficult, dealing returns a significant blow. This has been compounded by a dearth of exits via public listings, given the current negative public market sentiment. With equity valuations toppling, mark-to-market valuations of portfolio companies have followed suit.

Enter Bain & Company's Global Private Equity Report 2023, which reveals that a record $3.7trn of dry powder is eagerly seeking deployment in the global private equity market. This sum spans across buyout, venture capital, infrastructure, real estate, and distressed private equity – a diverse array of asset classes that's sure to pique the interest of investors looking to put their money to work.

But here's the thing: Private equity fundraising is facing a bit of a conundrum. Sure, transactors are talking about the "denominator" problem – that's when investors in private equity funds have a set percentage of their portfolio allocated to private equity, but that allocation can shrink if another asset class – say, public equity – takes a nosedive. However, that's only part of the story.

In my view, the bigger issue is that institutional investors – the kind that can make or break a fundraise – are getting wise to the game. They're starting to realise that private equity firms have had it pretty easy for a while now. Returns have been steadily declining, yet there's an absurd amount of dry powder sloshing around out there, waiting to be deployed. And as a result, these LPs are starting to demand more than just a financial commitment and a slice of the fees.

They want a say in how the portfolio is managed. They want to be involved in decision-making. They want more control.

Now, this isn't necessarily a bad thing. In fact, it could be seen as a positive development – after all, these are big-time investors we're talking about, and they have a lot of expertise to bring to the table. But it does mean that the days of private equity firms calling all the shots are numbered. And if they want to continue raising big bucks, they're going to have to start sharing the power. ◆

Michael Avery

Contents

Editor's note

Barbarians at the emerging market gates 1

AI opportunities for GPs 4

Private equity and business rescue: a match made in heaven? 7

Harvest Fund III backs high-growth startups 9

Goodbye 12J, hello 12B 11

Africa's climate crisis 13

Local & International news roundup 15

All the Q1 2023 deal activity from SA 16

Catalyst

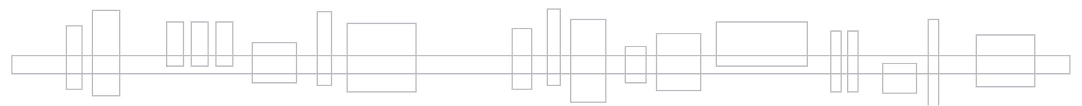
Editor: Michael Avery

Sub-editor: Lee Robinson

Design & Layout: Janine Harms, Gleason Design Studio

Catalyst is published by the proprietor Gleason Publications (Pty) Ltd, reg no: 1996/010505/07 from its offices at 31 Tudor Park, 61 Hillcrest Avenue Blairgowrie, Randburg 2194.

Tel: +27 (0)11 886 6446



Ethos goes dancing with the Barbarians

"The best business leaders are those who can adapt, innovate, and thrive in the face of change. Embrace disruption, and turn it into an opportunity."
Barbarians at the Gate

Ethos Private Equity Group made headlines in the fourth quarter of 2022 with its acquisition by The Rohatyn Group (TRG), a global private equity firm of distinguished pedigree. This acquisition, which became unconditional on 1 April 2023, has been described as transformational for Ethos and its future.

In an interview with Catalyst magazine, CEO of Ethos Capital, Peter Hayward-Butt shared insights into this deal and what it means for the company's future, as well as his outlook for private equity in the region.

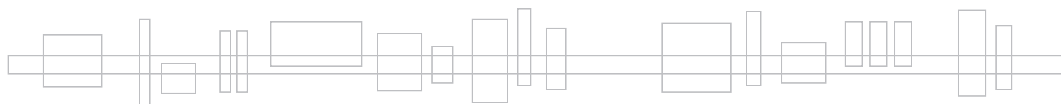
Peter Hayward-Butt

The Rohatyn Group, founded by Nicolas Rohatyn, is a New York-based business that has been around for over 20 years. Rohatyn's father, Felix Rohatyn was the architect of the famous leveraged buyout (LBO) of RJR Nabisco in the 1980s, as chronicled in Bryan Burrough and John Helyar's book, *Barbarians at the Gate*. The Rohatyn Group has a strong presence in emerging markets, particularly in Latin America, India, and emerging Europe, which aligns with Ethos Capital's focus on investing in emerging markets.

Barbarians at the Gate provided readers with a front-row seat to the cutthroat world of Wall Street and corporate finance. It introduced the world to private equity in all its leveraged, greed-fuelled and ruthless glory, and can be classified as a seminal moment for the asset class. Much has changed since, not least of which is the extent to which financial engineering has been toned down and replaced with a much greater focus on adding real business value.

In the book, TRG is depicted as a strategic advisor to the management of RJR Nabisco, providing financial and tactical support in the face of the hostile takeover attempt by Kohlberg Kravis Roberts & Co. (KKR) and other parties. TRG's involvement in the deal includes providing financial advice, helping to structure defensive strategies, and assisting in negotiations with various parties involved in the takeover attempt.

"I think the merits of the deal for us are partnering with someone who is interested in emerging markets. They're very, very strong in Latin America, in India, emerging Europe. They really do understand emerging markets, which I think was a differentiator for us in looking for a partner."
Hayward-Butt



Hayward-Butt highlighted the significance of partnering with TRG, stating, "I think the merits of the deal for us are partnering with someone who is interested in emerging markets. They're very, very strong in Latin America, in India, and emerging Europe. They really do understand emerging markets, which I think was a differentiator for us in looking for a partner."

But it goes beyond just reading from the same emerging markets page. The access to capital in New York that The Rohatyn Group brings to Ethos is seen as a major advantage. "At the end of the day, Nick and his team are extremely well plugged into the capital allocators there," said Hayward-Butt. "And I think, to be honest, what we've seen globally is the KKRs, Carlyles, et cetera of this world getting their disproportionate share of capital; the bigger firms getting bigger and the regional firms losing out. So, I think for us to be part of a merged entity and to be part of a much bigger organisation based out of New York really is transformational for us."

The cultural fit between Ethos Capital and The Rohatyn Group is also seen as a strong point of the acquisition. Hayward-Butt emphasised the importance of cultural alignment in any deal, stating, "When you're putting a deal together, the first and most important thing is, is there a cultural fit? And I think it takes a couple of those sorts of conversations, asking, 'are we aligned around where emerging markets can go from a private investing perspective?' That's the one thing we looked at."

He further added, "not once in those discussions was there anything concerning, not a heated debate or any misalignment around where we wanted to take the business, which I think is good."

Hayward-Butt is quick to recognise that, clearly it's a honeymoon period, but he's confident in the cultures merging seamlessly.

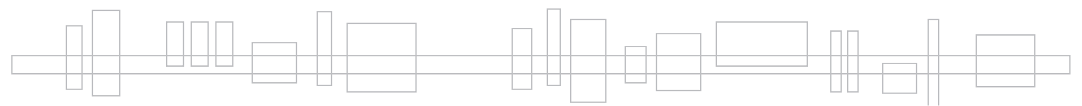
With the merger of Ethos and The Rohatyn Group, Ethos aims to play in the big leagues when it comes to global emerging market investors. The deal provides Ethos with the scale and access to capital needed to compete with larger private equity firms and expand its presence in emerging markets.

As a founding father of the local private equity industry in South Africa, Ethos has a strong track record of investing in and partnering with companies in emerging markets. The merger with The Rohatyn Group and its access to capital in New York is expected to further strengthen Ethos' position in these markets and open up new opportunities for growth.

Nicolas Rohatyn

Africa presents diverse investment opportunities in private markets, real assets, and public markets, where local expertise and experience are crucial for successful outcomes. By combining forces with Ethos, TRG is well-positioned to deliver a wider array of investment solutions to LPs (limited partners) of both firms. With over 20 years of experience, Ethos has made over 150 investments supporting South African and sub-Saharan businesses since 1984. TRG's investment teams offer capabilities across public equities, corporate and sovereign debt, private markets, forestry, agriculture and infrastructure.

Nicolas Rohatyn, The Rohatyn Group's Chief Executive Officer and founder, highlighted the philosophical and cultural similarities between TRG and Ethos, stating, "We share a belief that multiple thematic cross currents – such as private credit, renewable energy, digitalisation,



and agriculture, among others – will anchor future investment priorities for investors. Our combined firm, with almost US$8bn in AUM (assets under management), almost 400 institutional LPs, and the ability to offer solutions for de novo investing, as well as ongoing GP consolidations and fund restructurings, will occupy a unique position in our industry."

Ethos Private Equity CEO, Stuart MacKenzie expressed excitement about the acquisition, stating at the time of the announcement that "It is the start of an exciting new chapter for Ethos and the culmination of the strategic transformation we started in 2016. This transaction represents a compelling opportunity for us to pursue the next growth phase as the African arm of TRG, one of the largest alternative asset management firms in emerging markets."

MacKenzie also emphasized the alignment of values and cultures between TRG and Ethos, with a shared passion for innovation, driving impact, creating value, and delivering returns.

One of the immediate benefits of the acquisition for Ethos Capital's portfolio companies is the access to new markets and partners. Hayward-Butt mentions that one of their largest portfolio companies, Optasia, has already been introduced to a partner in Latin America through TRG's network. He sees this as a fantastic opportunity that would have been unlikely without TRG's involvement. He also highlights the potential for merging businesses with a "South African flavour" in South America, leveraging TRG's strong presence in the region. This illustrates how TRG's acquisition of Ethos Capital has opened up new doors for portfolio companies to expand their reach and tap into previously untapped markets.

Hayward-Butt also sees opportunities for secondaries in the current market where rising interest rates and depressed growth have heightened distress in portfolios. He explains that with volatility in the markets, some investors may need liquidity and would be willing to sell their holdings at a discount to the underlying net asset value (NAV). This presents an opportunity for Ethos Capital to acquire these holdings at a discount and potentially generate favourable returns for investors.

Outlook for private equity in South Africa

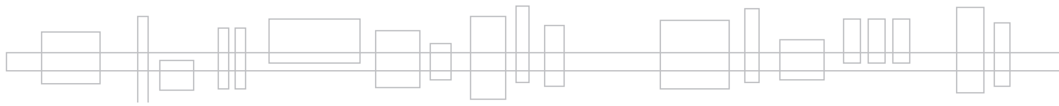
When pushed for his view on South African private equity opportunities, Hayward-Butt is quick to acknowledge that the mood is ultra-pessimistic, but hastens to add that the grass is not always greener in other emerging markets.

"We've seen, in the last year, much more international interest in our companies than we ever have before," says Hayward-Butt. "And I think it's a function of two things. One, developed markets are under more pressure than they were, with the cost of funding going up. Secondly, from a global perspective, yes, we have our challenges. But it is here that there remains growth; the demographics remain good, and I still think South Africa is a beachhead into Africa, which is a continent that's difficult to conquer. So, I believe we've got a lot of things going for us. Do we need more policy certainty? For sure. Do we need to sort out loadshedding? For sure. But we're not the only country with these issues. And as I mentioned, there is more international interest – it's also partly because, I think, our companies are undervalued relative to the rest of the world."

"And then you need the ability to borrow money to leverage up the returns and then exit these businesses over time. And I would say, on most of those fronts, things are more positive than they are negative [in South Africa]."

And the last perspective that Hayward-Butt points to for Ethos is the competitive dynamic.

"In the UK or US, and even in Europe, if



there's a deal to be done, there's at least eight or 10 private equity firms all over it. Most of the big private equity firms have left sub-Saharan Africa, which has left a huge gap for companies like Ethos and the local players to play into. So, when you are pitching up to do a deal, I think you can get these deals at relatively decent prices. And at the end of the day, that's a key component of making good returns. So we remain very, very bullish. We do need better certainty and more growth in the country – that would be a massive tailwind."

Hayward-Butt also reveals that they are considering opening up the opportunity for Ethos Capital investors to diversify their exposure geographically by investing not only in Ethos funds, but also in funds in other emerging markets around the world. This move would require shareholder approval, but it demonstrates TRG's strategic vision to expand Ethos Capital's investment scope and provide more options for their investors.

One key aspect of Ethos Capital that attracted TRG's interest is its unique funding structure as a listed entity. Hayward-Butt acknowledges that Ethos Capital is one of the key reasons why TRG was interested in acquiring the company. He explains that setting up such funding vehicles is not easy, and Ethos Capital's listing provides a differentiating factor for the company. He also mentions that they plan to expand the investment set to include funds in other emerging markets, which would transform Ethos Capital's exposure from sub-Saharan Africa to that of global emerging markets. This highlights TRG's intention to leverage Ethos Capital's listing status to unlock new investment opportunities and broaden the company's investor base.

Hayward-Butt further elaborates on the importance of per share growth for Ethos. He states that the key issue for them is to ensure that the growth in capital per share sustainably exceeds the cost of equity. He believes that achieving this would help narrow the discount that currently exists between Ethos Capital's share price and its net asset value, which he considers unacceptably large.

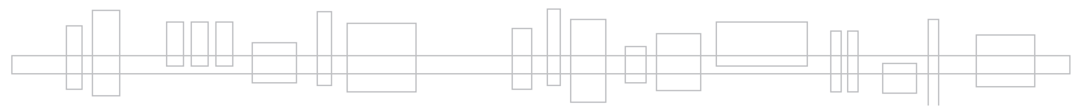
In typical private equity fashion, the terms of the transaction were not disclosed. To borrow from *Barbarians at the Gate*: "In business, you're only as good as your last deal. It's a cutthroat world where mistakes can be fatal, and there's no room for complacency." ◆

AI revolutionising private equity investments

Artificial intelligence (AI) has been a buzzword in the tech world for decades, but it's only recently that its potential is starting to make an impact – and the smart money is taking notice.

Michael Jordaan, founder of Montegray Capital, understands the power of AI and is taking it to new heights with the launch of two groundbreaking ventures: AI Asset Management and AI Capital.

Thanks to the phenomenal success of ChatGPT, the well-known chatbot from Open AI, everyone seems to be talking about artificial intelligence. ChatGPT reached one million users within five days of launch and, according to a



UBS study released in late February, is estimated to have amassed 100 million monthly active users in January, just two months after its debut, making it the fastest-growing consumer application in history.

According to the report, which used data from the analytics company Similarweb, ChatGPT saw more than twice as many unique visitors in January than it did in December—an average of about 13 million per day. It received one billion visits in February and 1,6 billion visits in March 2023.

Open AI was valued at US$29bn after the launch of ChatGPT, and Microsoft has since increased its initial 2019 investment by $10bn. ChatGPT integration has also resulted in a 15% increase in daily traffic for Bing.

GPT-4 (available in ChatGPT Plus) recently demonstrated "sparks of AGI" (a type of artificial intelligence that possesses the ability to understand, learn, and apply knowledge across a wide range of tasks – just like human intelligence – which is thought of as the holy grail in the science) and scored in the 90th percentile on a number of difficult human examinations, including the US Bar exam, and International Biology and Maths Olympiads.

It's fair to say that the large language model has pushed generative artificial intelligence into the mainstream.

In a recent interview with Catalyst, Jordaan explained the inspiration behind these ventures and the incredible impact that they could have on the world of private equity.

"AI has been around for a long time, but it has had many false dawns," Jordaan said. "However, with recent breakthroughs like ChatGPT, which allows you to have conversations with an intelligent human-like AI, it's clear that AI has come of age."

Jordaan's excitement about the potential of AI is palpable. He describes the experience of using AI tools like ChatGPT or DALL·E 2, which can generate any image you want, as "an exciting new era" that has the potential to transform industries across the board.

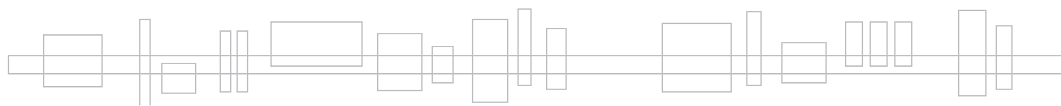
It is from this excitement and belief in the power of artificial intelligence that Montegray Capital has launched AI Asset Management and AI Capital.

AI Asset Management aims to revolutionise the way investments are made in the stock market. Using algorithms and big data, the platform analyses trends and patterns from the past to predict future market movements. While Montegray Capital initially tried this approach in the South African market with a project named NMRQL, the limited data available prompted them to shift their focus to the larger and more data-rich NASDAQ market in the United States.

"We believe that AI can unlock the true potential of the stock market," Jordaan said. "With the vast amount of data available in the NASDAQ market, AI can make more

Michael Jordaan

"We think those businesses that lean into the trend of AI are going to outperform," Jordaan said. "AI has the potential to revolutionise industries like agriculture, healthcare, crime prevention, advertising, and tax compliance, just to name a few. The possibilities are endless."



informed investment decisions and build a track record of success."

On the other hand, AI Capital takes a different approach by investing in businesses that are already leveraging AI tools. Jordaan likens this strategy to Warren Buffett's analogy of investing in companies that use the tools and not the toolmakers themselves, the way Coca-Cola leveraged the technology of refrigeration in their business model.

"We think those businesses that lean into the trend of AI are going to outperform," Jordaan said. "AI has the potential to revolutionise industries like agriculture, healthcare, crime prevention, advertising, and tax compliance, just to name a few. The possibilities are endless."

To bring these ventures to life, Montegray Capital has teamed up with Ethos Private Equity, a renowned investment firm that shares their vision for the potential of AI in the Private Equity space.

AI Capital Partners is a private equity fund, based in Singapore, focused on institutional investors, and Nic Kohler, Willem Roos, Michael Jordaan and Roger Grobler are the founding partners.

"We have been working together for three decades, in various forms," says Jordaan. "We have been investing together for the last eight years, including as founding investors in Rain and founders of Ethos AI Fund 1, in partnership with Ethos Private Equity."

The Ethos AI Fund 1 (Fund 1) is a closed end private equity fund in partnership with Ethos Private Equity. The fund is almost fully deployed and has achieved attractive returns to date. Fund 1's investments include Vertice MedTech, Tyme Bank (and GoTyme in the Philippines), Optasia, and Crossfin Holdings.

Ethos Capital CEO, Peter Hayward-Butt sees the partnership with Montegray as a natural evolution following on from the partnership with Nick and Roger in Ethos AI Fund 1, which was started in 2018.

"It's been a very successful fund. It was around about R750m, and I think the fund is currently sitting at about two and a half to three times money back. So, it's been a very positive partnership with Roger and Nick. And we're looking to expand it," explains Hayward-Butt. "We've proven its ability to find good opportunities to work in partnership with Roger and Nick and, in this case, with Michael and Willem, to find the opportunities, execute on those, and then exit them at good returns. The world has moved on and we've got to move with it."

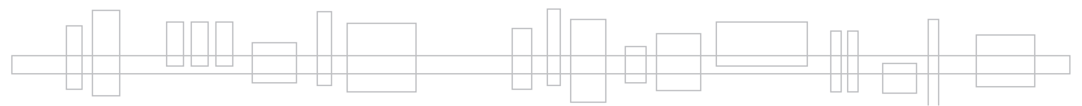
"We invested, in the first fund, in a business called Optasia, which, for all intents and purposes, is a credit scoring business. Again, the computer makes those decisions, thousands and thousands and thousands of decisions over; in this case, 560 million customers every second, which we could never do as humans. So, I think there are those businesses that benefit from it.

"And what we look to do is to take stakes in those businesses – as a private equity investor, obviously – working with Michael and his team and finding those businesses which we think will have a better moat around their business, or a better competitive advantage."

It's clear that Jordaan and Hayward-Butt are not only passionate about the potential of AI, but also about surrounding themselves with great people who share their vision.

As the interview concludes, Jordaan leaves us with a self-deprecating parting shot: "The secret to life is to surround yourself with great people or people that are better than you, which, in my case, is pretty easy."

Maybe he might add to that in future, that the secret to success in life is surrounding yourself with the best intelligence – human or artificial. ◆



Risk it for the biscuit: opportunities for private equity in business rescue

Private equity firms have long been known for their ability to strategically identify and act on opportunities where others may not see them, and business rescue is no exception.

Jessica Osmond and Tobie Jordaan

Business rescue presents a unique opportunity for private equity firms and investors to invest in companies that are struggling financially, but that, with the right resources and support, have reasonable prospects of a profitable turn around or rehabilitation.

With the increase in interest rates, rising inflation and relentless loadshedding, the economic strain experienced by businesses and consumers around the country continues to grow. It is only a matter of time until we see a surge in business rescues, where companies are left with little to no option but to restructure their debts through mechanisms provided for in the Act. This presents enormous opportunity for private equity players in the market who understand how business rescue may be used as an attractive vehicle to pursue their investment objectives. Private equity firms play a pivotal role in the distressed and restructuring sector as they are able to act quickly and decisively, which is vital in ensuring a successful and efficient rescue.

Chapter 6 of the Companies Act provides a rehabilitation mechanism for financially distressed companies through the process of business rescue, but one of the prerequisites for placing a company in business rescue is being able to prove that there is reason to believe that the company can be successfully rehabilitated, and this can look different from one distressed company to another.

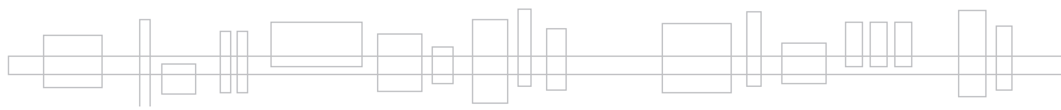
Since Chapter 6's inclusion in the Act, business rescue has continued to evolve, and the interplay between various sectors, particularly in the private equity, capital investments and distressed mergers and acquisitions space, has become evident.

Jessica Osmond

Tobie Jordaan

While business rescue can be a complex and challenging process, for those with the right expertise and experience, it can be used as an opportunity to create significant value in the long run.

Unlike other potential investors, private equity firms typically have the resources and operational expertise and experience to undertake the necessary due diligence and make swift investment decisions, affording them the ability to take advantage of the opportunities presented in a distressed scenario.



This can be particularly valuable in a business rescue situation, where time is often of the essence and the company may need significant operational improvements to return to profitability. Similarly, the business rescue practitioners are often under immense pressure to ensure that processes are followed in accordance with the time frames stipulated in the Act and the approved business rescue plan.

> "Unlike other potential investors, private equity firms typically have the resources and operational expertise and experience to undertake the necessary due diligence and make swift investment decisions, affording them the ability to take advantage of the opportunities presented in a distressed scenario."

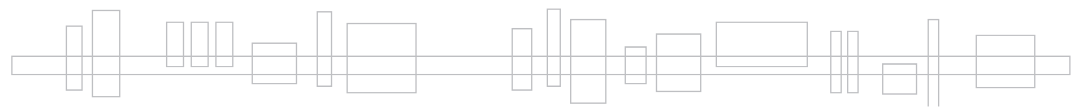
It's no secret that when a company is struggling financially, its assets are often undervalued or overlooked by investors. However, in such circumstances, private equity firms are able to leverage their experience to acquire these assets at a discount, seeing the potential to generate significant value in the long term. Being able to take advantage of these opportunities may also afford these firms an invaluable window to secure a position in industries in which there are significant barriers to entry, where acquiring distressed assets may be one of the few ways to gain a foothold in the market.

Apart from their unrivalled expertise and resources, private equity firms are also able to bring significant financial resources to the table in a business rescue or distressed situation. This is particularly important given that the company in rescue is, more often than not, struggling with significant debt and disgruntled creditors and stakeholders. This capital injection can provide the necessary funds to compromise its debts, or restructure the debt in such a way as to allow the company to return to solvency.

Whilst, in these circumstances, private equity can offer high returns in the long run, this type of investment is not without risk. Like with most investment strategies, there is often uncertainty as to whether the investment will pay off, and sometimes even more so when investing in distressed companies. To best mitigate this risk, private equity investors should appreciate the importance of winning over the cooperation and approval of stakeholders – being both creditors and shareholders. This may involve working alongside the business rescue practitioner in conducting extensive due diligence, analysing the company's financials and operations in detail, and developing a comprehensive plan for turning the business around.

Much like in instances of distressed mergers and acquisitions, we are seeing an uptick in the interplay between private equity takeovers or buy-ins as a means of rehabilitation in the business rescue space. This is promising for the future of business rescue and other restructuring endeavours, as it serves as a win-win for investors and companies looking to return to a healthy position of solvency. ◆

Osmond is an Associate, Dispute Resolution and Jordaan a Director in Cliffe Dekker Hofmeyr's Dispute Resolution practice and Head of its Business Rescue, Restructuring & Insolvency sector.



Endeavor puts its carry where its mouth is to support African tech scale-ups

Despite the recent tech pullback in the US, investors are still making big bets on Africa's tech-enabled entrepreneurs and high-growth startups.

One notable example is Harvest Fund III, a co-investment fund launched by Endeavor SA, which aims to raise R500m to back the most promising South African and African-founded tech-enabled businesses that are scaling globally. Harvest Fund II, the predecessor of the current fund, successfully raised R190m and invested in 18 companies in the past 18 months, making it a winning formula worth replicating.

To learn more about Harvest Fund III and its investment criteria, Catalyst interviewed Antonia Bothner, Capital Markets Lead at Endeavor. Bothner explained that Harvest Fund III will continue to invest exclusively into Endeavor's high-growth tech and tech-enabled entrepreneurs looking to scale globally. The fund focuses on businesses that are part of Endeavor's network and have been selected through a rigorous selection process. Specifically, the fund targets high-growth tech-enabled businesses that are scaling, often at the Series A and beyond stages, like TymeBank, for example.

Harvest Fund III is also expanding its focus to major tech hubs in Kenya, Nigeria and Egypt.

Bothner acknowledged that tech entrepreneurship in these markets comes with its own set of challenges.

Antonia Bothner

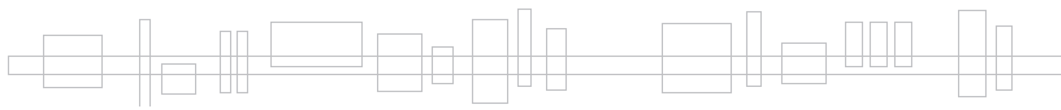
Regulatory risks are often high, and securing funding can be difficult, especially in the South African ecosystem. Additionally, businesses in these markets often have to build out new industries due to limited infrastructure, which presents unique challenges.

However, Bothner believes that these challenges also present significant opportunities for tech entrepreneurs to solve real-world problems in these markets, such as agtech, logistics and fintech, which tend to dominate in less developed markets like Nigeria and Kenya.

"Tech entrepreneurs are always up for a challenge," enthuses Bothner. "That's the nature of being an entrepreneur."

One notable feature of Harvest Fund III's operating model is its non-profit approach, which allows for 100% of the carried interest (carry) to be reinvested into the local ecosystem to support the next generation of

> One notable feature of Harvest Fund III's operating model is its non-profit approach, which allows for 100% of the carried interest (carry) to be reinvested back into the local ecosystem to support the next generation of entrepreneurs.



entrepreneurs. Bothner shared some examples of the impact that this model has had so far. As of the end of 2022, the 61 high-growth entrepreneurs in Endeavor's network had delivered revenues of 47%, equivalent to about R13bn. These entrepreneurs are also supporting 16,000 jobs, with job growth at 36% per annum and 80% of the jobs going to local youth, with 75% to black Africans. The reinvestment of carry back into the ecosystem aims to multiply this impact by supporting more jobs, revenue growth and innovation in the local economies.

When asked about the current global environment for VC-backed entrepreneurs in emerging markets, Bothner expressed optimism. She noted that while interest rates have started to rise, and though there have been recent stresses in the Silicon Valley Bank ecosystem, there is still appetite among global investors to look beyond mature ecosystems and explore opportunities in emerging markets. In fact, Bothner believes that this could provide a tailwind for African tech entrepreneurs, as global investors seek new avenues for growth.

Bothner also highlighted the importance of partnerships and collaborations in the African tech ecosystem. She mentioned that Endeavor has partnered with other organisations, including venture capital firms, to provide support and resources to its entrepreneurs. These partnerships have been instrumental in helping African tech entrepreneurs overcome challenges and scale their businesses globally.

Looking ahead, Bothner is optimistic about the future of African tech. She believes that Africa has immense potential for tech-enabled businesses to thrive and to make a positive impact on local economies.

"I think you can already start to see the world shifting to there and how they perceive Africa, and how they perceive risk in Africa [after the recent shocking rise in inflation and interest rates around the world]. In terms of population growth to 2050, the numbers are staggering, and they cannot and are not being ignored. One in every four humans and one in every three youths will come from Africa by 2050. That is a massive consumer market. And actually, if you can look at it as quite a flat playing field, which tech can do, you can really start to reassess risk in a way that's a little bit more bottom up, looking at those fundamental drivers such as the population growth, and what comes with that."

Harvest Fund III is just one example of the increasing interest and investment in African tech, and Bothner hopes to see more collaboration and partnerships in the ecosystem to support the growth of high-growth tech-enabled entrepreneurs. ◆

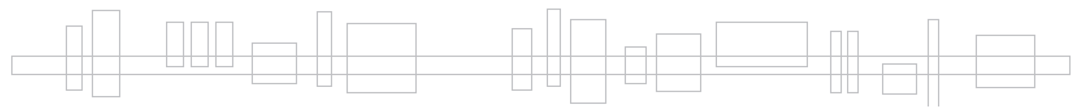
DealMakers®

VISIT OUR CORPORATE SITE AT

www.dealmakerssouthafrica.com

View flip file or download PDF

www.dealmakersdigital.co.za



Riding the solar energy wave: section 12B explained

Move over section 12J, the investment incentive that was unceremoniously dumped by the National Treasury after raising billions of rands of new investment into venture capital backed companies – there is a new incentive in town: s12B, and it looks to be even more attractive for taxpayers, with the added benefit of tackling the loadshedding crisis while simultaneously enjoying a juicy tax break.

S12J was introduced in 2009, as part of the Income Tax Act, and came to an end in June 2021. During this period, approximately R12bn was invested into this opportunity. The provision allowed investors to deduct the full amount of their investment in a qualifying venture capital company (VCC) from their taxable income in the year in which the investment is made. In other words, if you invested R100,000 in a qualifying VCC, you were able to deduct R100,000 from your taxable income for that year.

Jeff Miller

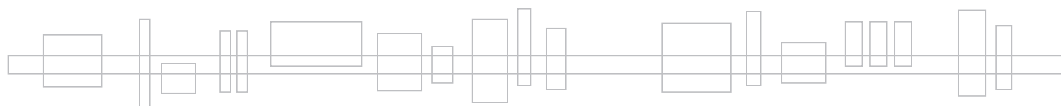
One of the key advantages of s12J was that it incentivised investors to support small and medium-sized businesses, which are the engines of job creation and economic growth. By investing in a VCC, not only did investors receive their tax deduction and return on capital, but they also helped to create jobs and stimulate economic activity in South Africa.

S12B, on the other hand, is a tax allowance which, with effect from 1 March 2023 to February 2025, allows investors a tax allowance of 125% of funds invested into energy generating assets. This allowance was announced by the Minister of Finance in his latest budget speech, with the sole intention of incentivising the public sector to invest in solar energy solutions to assist with the critical energy issues that Eskom is facing. This incentive has already stimulated the demand for solar energy assets and, by doing so, is creating new jobs a plenty, and is sure to make a meaningful impact on the "loadshedding" that we, as South Africans, currently endure daily.

While both s12J and s12B were designed to promote investment, there are some key differences between these two tax incentives that investors should be aware of.

Catalyst asked Grovest founder and CEO Jeff Miller to explain the differences between the s12J tax allowance, which came to an end in June 2021, and the new popular s12B tax allowance.

"S12B offers investors a much larger tax deduction than s12J," Miller points out as the major differentiator. "S12J was limited to 100% of the investment made in a VCC, with an annual limit of R2,5m for individuals and trusts and R5m for companies. S12B allows investors 125% of the investment made, with



no annual limit whatsoever for any investor.

"S12J required investment into qualifying companies that carried on most trades, as long as it was not in financial services, fixed property (other than in hospitality) or any of the sin businesses. S12B is only allowed if the investment is made into solar energy producing assets, which lends itself to more of a low to moderate risk investment."

The recently launched Twelve B Green Energy Fund, a private equity partnership structure administered by Grovest, the largest 12J fund administrator in South Africa, allows investors into the fund to receive a 125% tax allowance on their investment.

So for example, if an investor invested R100,000 into the Twelve B fund, they would be entitled to deduct R125,000 from their taxable income for that year, on the basis that the solar assets start producing energy in the same tax year. If the full amount invested is not deployed into energy producing assets, the balance of the 12B allowance will be carried forward to the next year. Interest paid to finance the investment into the 12B fund is fully deductible in the hands of the investor.

Miller is confident that the Twelve B Fund will raise and deploy R200m prior to the end of the February 2024 tax year, allowing investors to get their full 125% deduction in the current tax year.

Their strategic alliance with Hooray Power, the pioneers of large battery storage systems in sectional title complexes, gives them the right of first refusal on all projects introduced by them. Miller is of the view that deployment and execution of the funds into energy producing assets is key.

A material difference between s12J and s12B is the tax treatment of the investment.

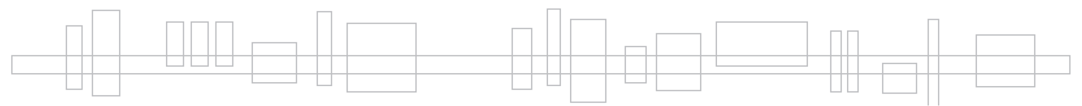
"S12J requires investors to pay Capital Gains Tax (CGT) from R1 on capital returned," explains Miller. "S12B is far less draconian. As the structure is a partnership, the Investor pays tax in its own hands. When the solar assets are sold, there is a recoupment of the value of the assets at the sale date, which will need to be brought into the hands of the taxpayer. Investors in s12J receive dividends which, if in the hands of an individual or trust, is subject to dividends withholding tax. S12B investors in the fund receive distributions, or share of profits, which is taxed at the investor's effective tax rate."

The Twelve B Fund utilises the Investment proceeds to procure solar assets comprising panels, inverters and batteries, which it deploys across various energy off takers. These off takers, which include sectional title complexes, shopping centres and commercial and industrial buildings, enter into 20-year Power Purchase Agreements (PPAs) with the fund. All off takers need first to be approved by the Funds Investment Committee.

Miller anticipates the average investment across the various projects to be between R8m to R12m, resulting in a diversified portfolio of around 25 projects in the Twelve B Fund. "We currently have a pipeline of over R300m of projects at various stages. In April, we broke ground on our first two approved projects, one being a large printing works, and the other, a sectional title complex."

Predictable contractual monthly cash flows allow for bi-annual distributions in March and September each year, with the first distribution to be paid in September this year.

By incentivising investors to support these businesses, Treasury has effectively opened the door for taxpayers to create jobs, stimulate economic growth, and build stronger communities while, at the same time, getting the generous reciprocal tax benefits available and fixing our debilitating energy crisis. ◆



Africa's climate crisis: AFC and GCF partner to launch Innovative Infrastructure Fund for a resilient future

Climate change is not just a distant threat for Africa, but a present reality that poses significant challenges to the continent's infrastructure.

Rising temperatures, erratic rain patterns, flooding and extreme weather events are all taking a toll on critical existing infrastructure, and hindering the development of new infrastructure projects. To address this urgent need for climate-resilient infrastructure, Africa Finance Corporation (AFC), Africa's leading infrastructure solutions provider, has partnered with the Green Climate Fund (GCF) to create the Infrastructure Climate Resilient Fund (ICRF), an innovative finance instrument that aims to integrate climate-resilient measures into infrastructure planning, design, construction, and operation.

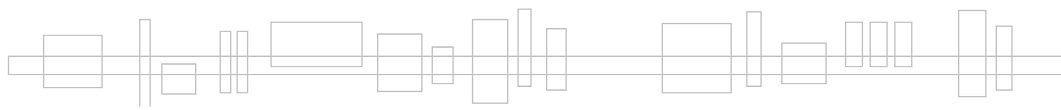
The GCF's commitment to the ICRF is not only its largest equity investment in Africa to date, but also its biggest commitment to an Africa-wide multi-country programme. With a target fund size of US$750m, the ICRF represents a pioneering effort to catalyse the development of climate-resilient infrastructure across Africa and create a new asset class in the African investment landscape. By blending concessional capital into the fund, the ICRF aims to attract commercial capital from institutional investors, including African pension funds, sovereign wealth funds and insurance companies, to finance climate-resilient infrastructure projects in the region.

Samaila Zubairu, President and CEO of the AFC, is optimistic about the transformative impact of the ICRF on Africa's infrastructure development. He believes that the fund will leverage the untapped pool of institutional capital to provide climate finance at scale, bridging Africa's infrastructure deficit and unleashing its economic potential. The GCF's commitment as an anchor investor in the ICRF is expected to encourage other patient commercial capital providers to join the effort, despite the perceived risks associated with investing in Africa.

One of the key features of the ICRF is its focus on climate-resilient transport and logistics, energy systems, economic zones, and telecommunication and digital infrastructure. These sectors are critical for Africa's economic growth and development, but are also highly vulnerable to the impacts of climate change. The ICRF aims to support both greenfield and brownfield infrastructure projects that incorporate climate-resilient measures from the planning stage to ensure that they can withstand the changing climate conditions in Africa.

Samaila Zubairu

The need for climate-resilient infrastructure in Africa is urgent and pressing. The continent is already grappling with an



infrastructure deficit in terms of quantity, quality and accessibility, and climate change exacerbates these challenges. The ICRF is expected to benefit up to 50 million people directly, and 144 million people indirectly, by building reliable infrastructure services that can withstand the impacts of climate change. The fund will target 19 countries in sub-Saharan Africa, including Benin, Cameroon, Chad, Côte d'Ivoire, The Democratic Republic of the Congo, Djibouti, Gabon, The Gambia, Ghana, Guinea, Kenya, Mali, Mauritania, Namibia, Nigeria, Rwanda, Sierra Leone, Togo and Zambia.

> "The GCF's commitment to the ICRF is not only its largest equity investment in Africa to date, but also its biggest commitment to an Africa-wide multi-country programme."

The GCF's investment in the ICRF is not just about providing financial support, but also about catalysing further financing from private sector investors and pension funds. Private investors have been hesitant to scale the investment barriers posed by climate-resilient infrastructure in Africa, but the GCF's first-loss equity investment aims to de-risk participation and encourage more private capital to flow into the sector. The ICRF is expected to create a model for local banks and financial institutions to engage in climate finance and mobilise African pension funds and other private investors to view climate-resilient infrastructure as a viable asset class in Africa.

GCF Executive Director, Yannick Glemarec is enthusiastic about the partnership with AFC and the potential of the ICRF to transform Africa's infrastructure landscape. At the announcement of the fund, he said that the "ICRF is a pioneering fund that will catalyse the development of climate-resilient infrastructure across Africa. GCF's first-loss anchor investment in ICRF will mobilise African pension funds and other private investors to invest in climate-resilient infrastructure as a new asset class in Africa. It will also serve as a model for local banks and financial institutions to engage in climate finance. I'm delighted that GCF is partnering with AFC on GCF's largest equity investment in Africa to date."

The GCF's $240m equity investment will support the incremental cost required to integrate adaptation and climate-resilient measures into climate-proofing infrastructure, thereby de-risking participation of commercial institutional investors to mobilise funding at scale, and it has committed a further $13,7m in grant financing.

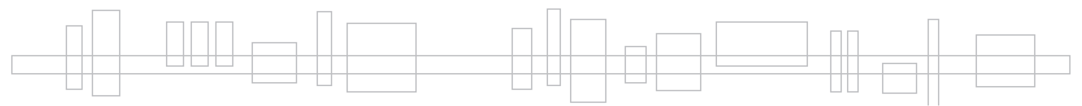
By blending concessional capital into the fund, the ICRF will attract commercial capital to climate-resilient infrastructure in Africa, with the first-loss position of concessional capital from the GCF encouraging the flow of private capital to climate-resilient infrastructure investment opportunities.

LS

Live Sound

VIRTUAL EVENTS | AV | SOUND | STAGING | POWER | LIGHTING

Connect with us: livesound@mweb.co.za



Local and International news

National

Planet42, a startup that aims to tackle transportation inequality by providing cars to individuals who don't have access to traditional bank credit, has raised $100m in a combination of equity and debt funding. The equity round, which raised $15m, was co-led by Jasper's and ARS Holdings, with contributions from both existing and new shareholders, including Rivonia Road Capital. Planet42 also secured a $75m credit facility from Rivonia Road Capital, and an additional $10m in debt financing from private investors. The funds will be used to expand its business rapidly and achieve its goal of providing one million cars globally. ◆

Aventro, a women-led company, has received investment from Third Way Investment Partners, Mahlako Energy Fund and Mergence Investment Managers to boost its shares in the Redstone Concentrated Solar Power Project. The project is expected to generate clean energy to electrify about 200,000 South African homes and is projected to have the lowest electrical tariffs. The deal marks a victory for South Africa's stuttering just transition plans, as well as for women-run business in South Africa, and is reflective of Third Way, Mahlako and Mergence's ethos to facilitate socio-economic development and invest in innovative power generation capacity. ◆

International

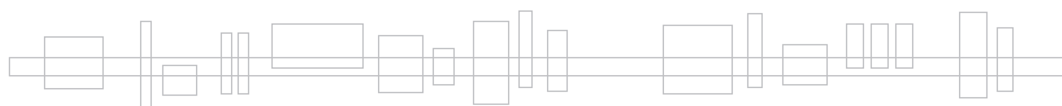
Private equity firms are investing in a variety of businesses across Africa, with a particular focus on Kenya, Nigeria and Egypt.

In Egypt, grocery retailer Kazyon has attracted a $165m investment from Development Partners International and other co-investors, while in Kenya, The Rohatyn Group has invested in Kensta, a large paper merchandiser. Nigerian bus-sharing service Shuttlers has received $4m in funding, Victory Farms in East Africa has secured $35m in a Series B funding round to expand its aquaculture operations, and UK-based AgDevCo has supported Agris and Israeli avocado producer Granot in establishing a 390-hectare avocado plantation in Naivasha, Kenya. The demand for avocados in Europe is driving this investment, as Naivasha offers favourable conditions and convenient sea links to international markets.

These investments demonstrate private equity firms' increasing interest in Africa's growing economies and untapped markets. ◆

London-based LeapFrog Investments, a company that invests in businesses with a profit and purpose approach, has recently added new members to its Climate Investment Strategy Team, aiming to support sustainable growth opportunities for low-income consumers and producers in emerging markets.

The team welcomes Saurabh Bajaj as Director of Investments - South East Asia, Climate; Katherine Owens as Associate Director of Impact Measurement and Management, Climate; Nimish Desai as Associate Director, Climate; and Akshi Sharma as Investment Analyst, Climate. This team joins Nakul Zaveri, LeapFrog's recently appointed Partner, to advance the company's Climate Investment Strategy. ◆



PRIVATE EQUITY DEALS Q1 2023

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Acquisition by	Sanlam Private Equity (Sanlam)	controlling stake in SkipWaste		undisclosed	Jan 18 2023
Acquisition by	RMB Ventures Eight (FirstRand)	stake in Mafika Engineering Group	Fairbridges Wertheim Becker	undisclosed	Jan 24 2023
Investment by	Enza Capital, Elea Foundation, Harvest, E4EAfrica and other investors	in Yebo Fresh [pre-Series A] plus a grant from The Jobs Fund	Bowmans	R78m including grant	Jan 24 2023
Investment by	Lightrock, DEG, Triodos Investment Management, Women's World Banking Asset Management, International Finance Corporation and Quona Capital	in Lulalend [Series B]	Bowmans	$35m (R600m)	Feb 1 2023
Acquisition by	Summit Private Equity Partnership	a stake in Custom Capital Finance		undisclosed	Feb 3 2023
Acquisition by	Vuna Partners Fund I	a stake in Dynamic Bedding	ENSafrica	not publicly disclosed	Feb 3 2023
Disposal by	Criterion Africa Partners to Mission Produce	a minority stake in Selokwe Agri		undisclosed	Feb 7 2023
Acquisition by	Futuregrowth Asset Management (Old Mutual)	investment in prop-tech startup platform Flow Living		undisclosed	Feb 9 2023
Investment by	Atlantica Ventures, Allan Gray, E-Squared Ventures, Fireball Capital, Endeavor Catalyst, 4Di Capital, Endeavor Harvest, Alpha Private Capital and Kalon Venture Partners	in Sendmarc [Series A]		$7m	Feb 9 2023
Investment by	HAVAÍC and Capcitech	in RNR (Right Now Response)		R10m	Feb 14 2023
Investment by	International Finance Corporation, the German Development Finance Institution (DEG), Hollard and Yellowwoods	in Naked		R290m	Feb 15 2023
Acquisition by	Cape Town Biogas (Metier)	a stake in New Horizons Waste to Energy	Cliffe Dekker Hofmeyr	undisclosed	Feb 17 2023
Acquisition by	Naspers Foundry (Naspers), ARS Holdings, Rivonia Road Capital and other investors	equity stake in Planet42		undisclosed [total debt & equity $100m]	Feb 23 2023
Investment by	New GX Ventures SA and GIIG Africa Fund	in Envisionit Deep AI		$1,65m	Feb 24 2023
Acquisition by	TLG Investments 74% owned by AIIM (Old Mutual) from Etymo	remaining 50% stake in Tradekor	ENSafrica	undisclosed	Mar 2 2023
Acquisition by	Sanlam Investment Management through Cavalier (Sanlam) from ECP Africa Fund	Grand Foods Meat Plant	ENSafrica	not publicly disclosed	Mar 2 2023
Acquisition by	Copenhagen Infrastructure Partners' New Markets Fund I	a majority stake in Mulilo Energy	KPMG; Webber Wentzel	undisclosed	Mar 9 2023
Disposal by	Halliard International Besloten Vennootschap (PBT Group) to existing shareholders IFM Growth Partners, Saniel Ventures and Jasper Foundation	entire shareholding in Payapps	Questco	A$14,35m	Mar 28 2023
Disposal by	RCL FOODS to EMIF II Investment (A. P. Moller)	Vector Logistics	Rand Merchant Bank; Webber Wentzel; Baker McKenzie; White & Case; EY	R1,25bn	Mar 29 2023
Disposal by	Zeder Financial Services (Zeder Investments) to Fedgroup Private Capital Fund and others	Clean Air Nurseries Agri Global	PSG Capital	R19m	not announced

PRACTICE MAKES PERFECT

- **South Africa Law Firm of the Year**
  Chambers Africa Awards, 2021 & 2022
- **ESG Initiative of the Year**
  African Legal Awards, 2021 & 2022
- **Tax Firm of the Year: South Africa**
  International Tax Review EMEA Tax Awards, 2021 & 2022
- **Environment, Energy & Natural Resources Team of the Year (Mid-Large Sized Practice)**
  African Legal Awards, 2022
- **M&A Firm of the Year: South Africa**
  International Financial Law Review Africa Awards, 2021

WEBBER WENTZEL

in alliance with > Linklaters