

EARLY-STAGE INVESTING: A MUCH-NEEDED GROWTH ENGINE TO SOLVE SOUTH AFRICA'S UNEMPLOYMENT CRISIS

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Early-stage investment has long offered excellent growth potential to investors who are prepared to manage the higher risks associated with companies in the early stages of their journey. Not only are these entrepreneurial ventures essential engines of growth, but their disruptive business propositions provide healthy competition to the more established players in their industries - to the benefit of all the customers they serve.

Now more than ever, the South African economy needs the dynamism these companies have to offer. Numerous studies have shown that job creation and higher incomes are associated with investing in early-stage businesses. On average, these businesses spend over half of their budgets on their staff contingent. In addition, over a 10-year horizon these types of businesses will see a 5x increase in their employee base, which bodes well for job creation in South Africa.

The country still faces fundamental challenges, in particular unemployment, which currently sits at 34.5%. It is these types of fast-growing companies that will help provide the impetus needed to emerge from this unemployment crisis.

Early-stage investment – how it's done

Futuregrowth's investment team spends considerable time and effort identifying suitable companies and making investments where we believe we can propel the company's growth to new heights and expand its reach beyond its existing footprint. For every 100 potential investments we look at, we only end up investing in two or three. Futuregrowth has strategically invested in a number of promising early-stage companies, with more in the pipeline. In late 2018, for example, Futuregrowth was the first South African institutional investor in Yoco, and, to date, the investment has proved to be a success.

When analysing a potential early-stage investment opportunity, these are some of the questions we ask:

- Is there a large addressable market for what the company has to offer?
- What is the developmental impact of the business?
- Is the company in a high growth market?
- What does the company offer that others don't? What is the durability of the company's competitive advantage?
- Is the business proposition groundbreaking and an agent of change in its industry? How does it compare to its competitors?
- What is the revenue potential, is the business proposition scalable, and are there barriers to entry?
- Does the business have a great management team?
- Does the management team have a balanced mix of technical and business skills?

- Has the company gained traction in the market and is there proven demand for what it has to offer?
- Are the company's forecasts achievable (realistic)?
- What could cause the business to fail?

Mobiz – ticking all the boxes

Investment date: November 2021

One company that has far exceeded these criteria is Mobiz, a promising marketing technology business based in Cape Town. What we most liked about Mobiz is that it has taken a unique skill – marketing - and used technology to allow companies of all sizes to offer effective marketing campaigns to their customers, positively impacting these companies' bottom lines.

Mobiz makes quality digital SMS marketing tools accessible to all types of companies, from small to large enterprises. The digital SMS marketing tool that Mobiz offers to its clients is characterised by an easy-to-use platform that anyone, at any skill level, can use to send professional yet impactful digital marketing campaigns to thousands of customers at scale.

Using the Mobiz SMS digital marketing platform, companies can offer hyper-personalised mobile landing pages to their customers. The key element of the Mobiz platform is that the messages sent from the platform are dynamic and unique to that customer. The relevance of the message to a particular customer further enhances the business's engagement with its customers and, ultimately, its sales conversion rates.

Most importantly, Mobiz is backed by an impressive management team who have all the attributes of the type of entrepreneur you would like to back. In addition, the management team have deep industry knowledge of the marketing sector and their target market.

Mobiz more than met our requirements as an agent for change in the digital marketing sector, and the traction it has achieved to date is testament to the quality of the management team and the product. Mobiz is now attempting to raise the South African flag high through expanding into the very large US market.

Inseco – contributing to the sustainable production of food

Investment date: March 2022

We added Inseco to our growing early-stage portfolio due to its groundbreaking technology which was created to improve the sustainability of the global food production system through the sale of nutritious insect protein products.

Inseco was founded to address the challenges that countries face with regards to sustainable food production, as current food production systems will be unable to meet the growing demand. In addition, over 35% of food produced globally is wasted and emits greenhouse gases.

Inseco's capabilities include using black soldier flies to convert low-value organic by-products into high quality protein, oils, and fertilizer. Their products are then sold to the local aquaculture, pet food and poultry industries.

Currently servicing the already large local market, the team has plans to expand into the US, Europe, and the rest of Africa. The heightened awareness to alleviate food security concerns is one of the many growth drivers of the large insect protein market.

The business, which went through almost seven years of research and development, has developed a large yet state-of-the-art processing capability which places it ahead of its competitors. Even more, Inseco is the only company in South Africa that can produce defatted insect meal and oil - reinforcing its attractiveness over its rivals.

Inseco is backed by a great management team who demonstrate innovation, deep understanding of the market and strategic insight. The team has a good mix of both technical and business expertise.

Ozow – improving financial inclusion

Investment date: April 2022

Recognised as one of the leading instant-EFT providers in South Africa, Ozow has enabled millions of South African consumers and merchants to transact online by making easy, convenient yet safe payments.

Ozow's disruptive business model automates the manual EFT process, which is known for being time consuming, prone to human error and inefficient. In addition, the company is working with industry and government to roll out the Rapid Payment Programme to create an instant payment ecosystem for the underbanked, using simple identifiers.

As responsible investors, we backed Ozow to support the team in its drive to transform the banking industry. For many reasons, a large portion of the under-banked population do not have access to a credit card. Ozow has set out to provide digital and financial inclusion to South African consumers who do not have access to a credit card, to make instant EFT payments using a basic bank account.

The management team includes members who had entrepreneurial experience prior to founding Ozow and are highly ambitious, driven, and innovative. In addition, the company is backed by well-capitalised shareholders such as Tencent and Endeavour Catalyst (whose Investment Committee is chaired by the co-founder of LinkedIn).

Ozow is in the process of building an omni-channel platform to capture the fast-growing EFT market, Our investment into Ozow has bolstered our existing portfolio of disruptive financial technology assets which include Yoco, Retail Capital and our recently exited investment in Cash Connect.

Continued high-impact investing

Our recent investments add an entirely new dimension to the existing pool of assets within the portfolio. They are also in line with Futuregrowth's commitment to improving South Africans' lives by striving to identify opportunities that yield optimal financial returns for our clients and make tangible contributions to society. These include investments in transport, infrastructure, housing, agriculture, development finance, renewable energy, health, education and SMME development, among others, and early-stage investments are complemented by a variety of maturing and established companies in the developmental space.

Dedicated early-stage investment fund

Following on from our nine years' experience in early-stage investing, the decision has been made to launch a separate dedicated early-stage investment fund. The Futuregrowth High Growth Development Equity Fund (HGDEF) will form part of our developmental suite of funds within the unlisted equity stable. The HGDEF aims to invest in developmental, innovative early-stage businesses in growth markets. The Fund will have a warm start, with an existing pipeline and team. There will be no asset transfers from our Development Equity Fund. Please click on this [link](#) for the fund announcement

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