The Evolution of Private Equity in Ethiopia
• SGI Frontier Capital, formerly Schulze Global Investments, pioneered the entrance of private equity in Ethiopia
• Beginning in 2010 with 1st investment, SGI’s portfolio currently consists of 7 companies
• Witnessing increasing interest in equity investments in Ethiopia from various types of investors
• Formation of new country-specific funds in recent years
Factors involved in entering Ethiopia

Double Digit GDP Growth
Perception Arbitrage
Gov’t Led Growth Initiatives
Low Global Correlation
Emerging Middle Class
Reforming Private Sector
Positive Impact
Strong Population Demographic
Growing FDI Interest

Macro Trends

FDI as % of GDP

Real GDP Growth

Ethiopia

Ethiopia
In the Beginning
The Early Days: 2008 - 2012

- Minimal precedent behind private equity investments
- Foreign investment concept
- Required education to all constituents:
  - Potential portfolio investments
  - Trade Ministries
  - Government Authorities
- Difficulties pitching traditional LPs

Select Transactions

- Investors
- Companies
- Trends

- Minority investments
- Investments centering on rising consumer market
- Focus on high population
- Companies satisfying immediate demand
Getting the “buy-in” from public sector to buildout a dynamic private sector

Working with DFIs that understand the “double bottom-line”

Building rapport and relationships with local government institutions

Assist in developing the business ecosystem and forming partnerships

**Developing the Ecosystem**

*Key Constituents Involved*

- Trade Ministries
- Ethiopian Investment Commission
- Public Sector
- National Bank of Ethiopia
- Intermediaries
- Advisors
- Local Lawyers
- World Bank & IFC
- Development Finance Institutions

**Funding Support**

**Phase I Continued**
**In the Middle**

**Gaining Traction: 2013 – 2018**

- Growing interest in PE
  - Formation of country-specific funds
  - Increasing interest from pan-African investors
- Inbound vs. outbound leads for new deals
  - Businesses aware of new forms of capital
- Formation of language around PE
- Direct co-investments from DFIs

**Select Transactions**

<table>
<thead>
<tr>
<th>Investors</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>KKR</td>
<td>AWC</td>
</tr>
<tr>
<td>Ascent</td>
<td>YES</td>
</tr>
<tr>
<td>54Capital</td>
<td>ARK</td>
</tr>
<tr>
<td>8Miles</td>
<td>Afri Flora</td>
</tr>
</tbody>
</table>

**Trends**

- Increasing focus on value-added products
- Ethiopia gaining publicity from export oriented companies
- Majority deals become more common
- Increasing competition and sophistication in consumer sector from foreign investment
RECENT TRENDS

On the Ground: 2018

- Maturation of companies vs. greenfield investments
- Secondary buyouts
  - Interest from pan-African PE investors seeking to enter market
  - Purchase of PE “groomed” companies – vetted financials, governance and best practices
- Larger equity check sizes
- Control deals with foreign management
  - Expanded emphasis on speed of execution and implementation of best practices
- PE backing of export-oriented companies
- Bidding up of EBITDA multiples due to increased competition for deals
**GOING FORWARD**

*SUCCESS FACTORS: 2018+

- Necessary hands-on involvement vs. passive investment
  - Implementation of strict governance
  - Operational value-add and partnering with invested company
  - Gaining trust and building relationships with business owners
- Careful navigation of foreign currency challenges
- Minimize supply chain risk through increased vertical integration

**EXIT CONSIDERATIONS**

- Various strategic investors seeking to expand portfolio – particularly within FMCG
  - Market PortCo for “roll-up” strategy
- Secondary buyouts:
  - Lack of public market/IPO exit strategy
  - EV “sweetspot”: $10m - $50m
**THANK YOU!**

**SGI Frontier Capital** is a private equity firm focused on the **world’s most dynamic frontier markets**. We identify countries that are **undervalued** because the global investment community overestimates the risks related to the market or underappreciates the market’s growth potential.
THANK YOU!