

Imara Asset Management 2Q 20 Investor Call - Transcript

Good afternoon everyone, thank you for taking the time to dial into the call.

During our Q1 call in April, we were in full lockdown and there was not much visibility on de-confinement, nor the impact that Covid would have on companies. We did however argue that we were invested in companies that deliver essential goods and services to the fast growing African consumer market and that Covid represented an opportunity to grow. We also argued that if Covid negatively affected the business, that the company was sufficiently robust to endure and more importantly gain market share from weaker operators.

The passage of time gives us the opportunity to gauge the validity of these assertions. Since our last call we have analyzed first quarter and where available second quarter results, as well as having over 50 virtual engagements with management of companies in our universe.

To recap, we posed the questions that we believed investors would want to know:

- Firstly, are companies able to grow revenue through the crisis. If not, are they strongly positioned to grow afterwards from customer demand and/or market share gains.
- Secondly, Can they grow profitably.
- Thirdly, are they sufficiently robust to survive and achieve this.

Thanks to our QVG system, developed in-house and consistently applied over 11 years, it was encouraging that the answers to these questions came back easily and clearly. In QVG, Q stands for quality, which uses a Likert scale to consistently quantify points 1-3 above in a snapshot and over time, providing powerful assessment and predictive data.

To put some numbers to our findings:

- 51% of the portfolio is exposed to companies growing, in some cases exceptionally strongly.
- 37% is exposed to companies with stable profitability.
- The balance of 12% is to companies with declining profitability, yet very strong balance sheets and gaining market share. These are mostly alcoholic beverage and cement companies.

At this point I would like to shift over to some specific companies and examples that are tapping into our key themes of cash to non- cash, data, financial inclusion, formalization of retail and healthcare.

In our Q4 call in January, we spoke about cash to non-cash in Egypt and a recent allocation we had made to a Payments company called Fawry. Egypt is an anomaly, where although being more economically advanced than most of Africa, financial inclusion is lower, where around 20% of the population have a bank account. This represents a substantial opportunity for banks and payments companies. Before I rattle off a bunch of statistics, I would like to put the Payments industry and its opportunity in context. In the developed world, it is the exception for a merchant to only be able to accept cash, it is also the exception for a customer to only be able to pay in cash. Africa is the reverse, most merchants can only accept cash and most customers only have cash. 97% of all transactions in Africa are made with cash. What Payments

companies are doing is bridging that gap by giving merchants the ability to accept cards or mobile money and giving customers the ability to pay with an alternative to cash. Hopefully that will help you appreciate Fawry's first quarter highlights:

- Number of Point of Sale (PoS) devices up 50%.
- Number of acceptance enabled merchants up 468%.
- Number of services that can be paid for up 45%.
- Total value of throughput, \$1bn, up 46%.
- Revenue up 48%.
- EBITDA up 62%.
- Net profit up 82%.

In terms of outlook, on our recent call with management, these trends are being reinforced, in fact on the back of Covid the market is turning even faster than they expected. Of particular interest in the last four months is the success of their mobile app, which now has around 750,000 users, from 100,000 in 2019 and they believe this can grow to 6 million. Since the Q1 call, the share has doubled and we believe it still has further to go.

On the Data theme, we are seeing consumption rates up between 50-100%, which together with mobile money is helping the telco's grow, despite pressure on voice revenues.

On the formalization of retail theme. Formalized retail penetration in Morocco is surprisingly low at 17%, with most shopping done at traditional markets and mom and pop stores. This represents a huge opportunity for the operator that gets it right and we believe that operator is Label Vie, with its multi store format to address the different tiers of customers. Covid has increased traffic through their stores substantially, as traditional markets have been closed and 25% of mom 'n pop stores shut. A number of first time customers, quickly became repeats due to better sanitization, more choice and lower prices. There are massive gains from economies of scale and margin expansion from the positive reinforcement cycle of increased volumes driving increased supplier rebates.

We also play the financial inclusion theme through is banks. Our QVG selects the best in class banks, those that have the largest market share of low cost retail deposits, as well as strong liquidity. Under Covid, they have had the luxury of conservative provisioning, yet remaining highly profitable. Share prices have been hit very hard, down between 20-40% and trading multiples are at or even below historic lows, representing an excellent entry point.

Our key Healthcare pick, Integrated Diagnostics, was initially hit as it was difficult for patients to get to labs. However, a quick shift to home visits, softened the blow. Down in April and May, test numbers have bounced back strongly in June and July and they have been able to gain market share. Covid testing in Egypt, represents a significant revenue opportunity going forward, as revenue per test is multiple times higher than their current average. The company's strong balance sheet is very much intact.

To conclude, we believe our portfolio is very well positioned for a recovery or an extended lockdown period. Despite having had a very strong performance in the second quarter, we believe the Fund is very attractively priced and at an attractive entry point.

With that I will hand the call back to you Harry.