AFRICA

IMARA HOLDINGS

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Local Knowledge Leads Imara to Back Africa's Fintech Revolution

PRODUCTION: **William Denstone**

The combination of deep local knowledge, experience and on-the-ground contacts together with international expertise is Imara's key to accessing the opportunities Africa holds. Expedited by Covid-19, it is the Fintech and e-payment revolution currently underway on the continent into which Imara is pouring its more than 60 years' history in Africa.

As one of Africa's leading independent financial services groups, engaged in asset management, investment banking and fiduciary and administration services, it is arguably the depth of Imara's local roots, and the extent of its experience and expertise of working in Africa that has propelled it to the top.

"Imara has been around since the 1950s," opens joint CEO Harry Wulfsohn, "originally as a stockbroking business in Zimbabwe, and has since evolved into a more diversified pan-African, asset management and advisory group."

Since 2017 the business has been private and backed by Wulfsohn, business partner Hector Fleming as joint-CEOs and majority shareholders, and a handful of other families dotted around the world. "All our shareholders have deep knowledge of both financial services and Africa, so add great value and provide a long term and stable shareholder base," Wulfsohn explains.

ADEPT AFRICAN OPERATORS

"Around 10 years ago Hector and I formed a two-family office - Fleming Wulfsohn Africa - to source investment opportunities in Sub-Saharan Africa on behalf of our families and other families who wish to co-invest with us. Our families have a combined history of more than 100 years building and managing businesses in Africa and international financial services groups.

"We, together with a number of other families, split between the US, the UK and South Africa, collaborated through an investment vehicle to make an offer to Imara, listed on the Botswana stock exchange at the time. We ended up buying 92% and delisting the business. Imara with eight offices in Africa and over 100 people, provided us with significantly more on the ground resource and access to develop our strategy for Fleming Wulfsohn Africa."

The pair's involvement in Africa is far from random, Wulfsohn explains. "I was born in Zambia, my parents in Zimbabwe and Zambia and my grandfather was a Russian immigrant into what was then Northern Rhodesia in the 1920s. He founded an African family conglomerate, Susman Brothers & Wulfsohn, with 2000 employees in five African countries including large scale agriculture (300,000 acres, 26,000 cattle, dairy, piggery, crops), 30 butcheries, abattoirs, 150 retail trading stores, wholesaling, hardwood and softwood timber mills, hotel, garage, blanket manufacturer, real estate and financial services. Later the family founded Trans Zambezi Industries, a listed sub-Saharan industrial holding company with 8200 employees in the 1990s. Raising capital for Sub-Saharan companies from major US institutions active in emerging markets, including five IPOs of African companies on two African exchanges and a European exchange."

As for his business partner, Hector's father, Adam Fleming, moved to Johannesburg in 1990 to set up what subsequently became Fleming Martin & Co, a subsidiary of the Robert Fleming Merchant Bank. Through relationships built up across

the continent, the family started co-investing in other businesses including mining, real estate and agriculture and still has holdings in more than 10 separate businesses across six different countries in Africa.

"The real vision for us is finding ways to attract international capital into Africa," Wulfsohn explains, "by identifying a range of interesting, niche investment opportunities and, at the same time supporting local entrepreneurs and local communities as well as maintaining a very positive environmental and social impact in everything we do.

"Clearly there are big challenges in Africa," he recognises, "but you have 55 countries all pushing and pulling in different ways. Despite the negative PR Africa receives, especially internationally, there are still excellent opportunities to be found in select countries and if you focus on the right sectors returns can be achieved with less risks than many investors might think.

Wulfsohn reasons. "It is important that Africa is viewed through the right lens or it risks being consistently dismissed by international investors. Africa is a youthful frontier story that has a long runway for growth uncorrelated to the rest of the world. The real story is the fortune at the bottom of the pyramid. It is not a middle-income opportunity. This market is there right now and it doesn't depend on politicians, commodity prices or even a growing middle class. It depends on finding the right company that is sensitive to these consumers' needs by delivering a product that is good quality, offers convenience and at the right price point."

TRANSITION TIME

Wulfsohn pinpoints that the most important trend driving growth across the Continent is the shift from the informal to the formal sector.

"This is a natural evolution from traditional methods/informal markets to modern markets. This is by far the most important trend and explains why Africa is an opportunity now and not in the future. This is a domestic, consumer theme. There is a market right now that is underserved and

// COVID IS A POSITIVE TAILWIND FOR THE E-PAYMENT REVOLUTION IN AFRICA //

// OUR VISION IS TO FIND WAYS TO ATTRACT MORE CAPITAL INTO AFRICA TO ACHIEVE BOTH RETURNS AND POSITIVE ESG //

underpenetrated. Estimates of the size of the informal and illicit market in Africa range from as low as 25% in South Africa to as high as 70% in Nigeria (according to the IMF). Historically, this was a market that was perhaps overlooked by some during the colonial period. Post-independence however, it is a market that is getting a lot of attention. With the diaspora returning home to play a key part in management and directing local solutions and innovation we are seeing a lot of exciting products that address the needs of this segment. The companies that serve this market with quality, convenience and affordable products have a large revenue stream, with economics that can match conventional premium or mainstream markets. You are talking cash displacement technologies, formalisation of retail, subsistence to commercial farming, raw/loose milk to processed milk, home brews to packaged opaque beer. We devote most of our time to finding such companies that can turn this revenue into profit. Companies that can do this have a long runway for growth," he explains.

"It is all down to an intimate understanding among the management of the local market." Maggi seasoning, owned by Nestlé, is an excellent example of the power of domestic wisdom proving the key to success. "The 250g bag was not selling. Nestlé's local Nigerian management team realised that people are paid daily or weekly, and cannot afford this sort of outlay in one transaction. Changing to 5oz or 10oz cubes now sees it flying out of the door - such a simple tweak of the same product to a different size has come from an understanding of the domestic economy."

E-PAYMENTS

One of the major transitions, which Wulfsohn and Imara believe is the big investable theme taking off in Africa, is the transition from cash to e-payments.

"The e-payment revolution is bridging the massive gap between the relatively high cell phone and internet penetration on the one hand, with the very low non-cash payment penetration on the other hand – it is any technology that helps consumers and merchants transact payments electronically rather than with cash. Think PayPal, Visa etc. Supporting this financial inclusion clearly also has significant positive social and financial benefits for the whole local communities. By catching early this emerging trend of consumers away from cash, we have compounded our money at over 45% per annum over two years," Wulfsohn explains.

"This e-payment revolution has already taken off - but the steepest part of the adoption curve lies ahead," he continues. "Like cell phones before, it's not about if or when, but how much African fintech

will grow. In Egypt, Point of Sale (PoS) device growth is +100%, yet only 2% of payments are digital, with only 300 PoS devices/100k pop, contrasted against Brazil at 8% and 2,500/100k; and Brazil is not standing still. Convergence of technology, a youthful population, government support are underlying drivers. Our process identifies Africa's high quality, fast growing and attractively valued Fintechs. These companies tap the whole population pyramid, generating small, recurring revenue streams, whose profitability increases exponentially with scale."

Cell phone ubiquity across Africa points us to the endgame. At the start of the century, cynics asserted that cell phones were a luxury few in Africa could afford. Thanks to cheaper handsets, 80% of Africans have a cell phone, creating tremendous utility for customers and wealth for investors. Financial inclusion, driven by Fintech, banks and telcos, is following a similar pattern. Cell phones have also provided consumers across the whole pyramid with a platform to transact. The enormous opportunity is for Fintech to bridge this gap between the level of cell phone and digital payment penetration.

Covid is another key to the lock. The technology adoption curve is tantalizing, but each stage has a lock and finding the key is tricky. Lockdowns forced first time consumer adoption, paying for essentials as well as service providers onto payment platforms to reach customers. Covid can be spread on cash - this further drives adoption as governments lean in to curb the spread. For example, in Morocco, government added surcharges on cash purchases at tills. In Egypt, payment of government employees switched from cash to card, and there are plans afoot to allow pensions to be paid into mobile wallets and promotions for merchant PoS adoption. In Kenya, electricity smart meters, mobile money and the utility are linked in real time to avoid queues in stores. Foreign remittances direct to mobile money wallet or bank accounts are keeping people out of physical outlets.

Wulfsohn concludes: "We target high quality companies with scale-able technology, low customer acquisition costs and have long and wide runways for growth. We also see tremendous value unlock as banks and telcos spin off their fintech arms on substantially higher multiples. All the companies we invest in are growing at over 50% annually, are the market leader in their country but unlike many of their global peers are already profitable and at attractive valuations."

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