

Exiting an African SME :

The experience of an impact investor committed to the continent for 20 years

January 2022



Since its creation in 2002, Investisseurs & Partenaires (I&P) has specialized in financing and supporting small and medium-sized enterprises in Sub-Saharan Africa. While our activities have gradually expanded (seed financing, consulting, training, etc.), **private equity is I&P's core mission**: to identify high-potential SMEs and provide them with the capital and skills needed to help them emerge, thereby contributing to the growth and development of the African continent.

The apparent scarcity of exit options may dissuade investors from funding these SMEs. But the dozens of exits made by the sector's first actors demonstrate that the private equity model can be successfully adapted. **This Briefing Paper reviews the experience of I&P, which has completed 30 exits to date.**

01. Financing SMEs with equity: understanding the main challenges

- ➔ **Investing in small and medium-sized companies differs from traditional private equity in many ways.** It often means being one of the first investors in the company, and making a significant commitment to the entrepreneur, with significant support in setting up governance and management processes.
- ➔ **The business model of private equity generally requires it to sell its holdings after 5 to 10 years** for closed-end funds with a limited lifespan - the majority in the sector (at I&P, this is the case for our IPAE funds). This period can be much longer for an Evergreen-type fund (i.e. the IPDEV 1 fund, I&P's first investment vehicle).



02. Exit options

While IPOs remain very rare for SMEs, a number of alternative options can be considered:



Exit to the promoter

Selling the investor's shares to the entrepreneur(s) or the company's historical shareholders is one of the possible exit options. This option is in line with I&P's mission, reflecting the importance given to entrepreneurs and their ability to decide on the future of their company. This exit option must be anticipated before the investment.



Exit to a third party

In many cases, entrepreneurs value the involvement of partners in the shareholding and prefer that the investor transfers its shares to another investor or to an industrial player, who will continue to support the company in a new development phase.

An SME that has already been supported by an equity investor stands out to third-party investors because of its governance standards and its structural and accounting reliability level.

External exit options are developing, with two main categories of potential acquirers: on the one hand, strategic/industrial players operating in the company's sector (on a national, regional or international scale) and, on the other, financial players (banks, investment funds, impact investors, etc.)

03. I&P's exits: overview

Since the first sale of the Malian company CAMED in 2009, I&P has **completed 30 exits to date**.

Most of them have been made within the framework of IPDEV 1, I&P's historical and pilot vehicle. The pace of exits is accelerating for the fund I&P Afrique Entrepreneurs 1 (IPAE 1), which has made three full exits (and has several partial exits in progress).

30

completed exits

55%

Exit on the promoter
and/or on the company's
former shareholders

45%

Exit on a third party:
strategic industrial or
financial actor

Some example of I&P's exits

More details : p.3



Senegal • Agribusiness

Exit : Promoter and strategic :
Danone Communities et Grameen



Panafrican • Agribusiness

Exit : Strategic actors



Madagascar • Agribusiness

Exit : Former
shareholders



Madagascar • Agribusiness

Exit : Promoter



Madagascar • Textile

Exit : Promoter



Mali • Training

Exit : Promoter



Benin • Construction

Exit : strategic (ETC)



Mauritania • Energy

Exit : strategic (Engie) and
impact investor (SADEV)



Ivory Coast • Energy

Exit : strategic (EDF)



Senegal • Health

Exit : financial actor



Senegal • Health

Exit : Former
Shareholders



Niger • Health

Exit : promoter and
Nigerian investors



Mali • Health

Exit : Strategic

04. Focus on some key exits

Normat

Benin • Investment in 2017, Exit in 2021

Exit on strategic actor

The company: Normat is a Beninese company specialized in drilling, blasting and distribution of civil explosives (mainly used in mines and quarries and on some construction sites). The company was created in 2017 following the spin-off of this drilling-mining business from Bhelix, which operates several granite quarries in Benin and in which I&P invested in 2009 through the investment vehicle I&P Développement.

The exit: Normat is entering a new phase in its development with the arrival of EPC, the world leader in the manufacture and distribution of explosives for civil use. The promoter remains a minority shareholder in the company and continues to provide general management.



La Laiterie du Berger

Senegal • Investment in 2005

Exit on the entrepreneur

Strategic

The company: Laiterie du Berger has become a major Senegalese company recognized for its structuring role in the country's milk sector and for its social impact on thousands of farmers. The company was supported by I&P from the outset, and subsequently financed by several renowned investors. Its products (known under the brand Dolima) are available throughout the country.

The exit: The exit from La Laiterie du Berger was done on one hand on the founder, his family and a group of Senegalese and French private investors he federated; and on the other hand on strategic actors: the impact funds Danone Communities and Grameen Crédit Agricole; and Danone group, the world leader in agribusiness.



CONERGIES

Côte d'Ivoire • Investment in 2012 • Exit in 2019

Exit on strategic actor

The company: CONERGIES is a family-owned group, leader in West Africa in air conditioning, refrigeration, and solar solutions, operating in Mali and in Côte d'Ivoire. I&P joined the company in 2013 at the start of its deployment in Côte d'Ivoire. At that time, the company had 30 employees. In 2019, the company had more than 150 employees.

The exit: I&P withdrew from the company after six years of partnership, during which the team accompanied the structuring of the company, its marketing overhaul and the start of its activities in Côte d'Ivoire. The exit was made on the EDF group, which became a partner of CONERGIES to deploy innovative energy solutions in West Africa. It is a strategic business partner, which has brought to the company an expertise on new technologies (energy efficiency, renewable energies, solar energy...)



Ultramaille

Madagascar • Investment in 2016 • Exit in 2021

Exit on the entrepreneur

The company: Founded in 1998, Ultramaille is a textile company specializing in knitwear and knitting. Based in Ambatomaro, this company employs more than 900 employees and exports its production to Europe, the United States and South Africa.

The exit: The partnership with I&P allowed Ultramaille to consolidate its financial and strategic structuring (mechanization of production, diversification of the clientele, banking of the personnel). In 2020, the Covid-19 pandemic had a very strong impact on the company, leaving no possibility of an exit. But in 2021, the company recovered and emerged stronger from this ordeal. I&P sold its shares to the promoter, Frederic Wybo, which was his wish from the beginning.

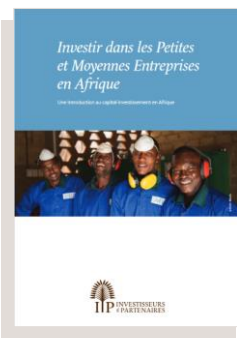


05. Checklist and practical advices

I&P's experience on the exits realized have highlighted the following points:

- **Preparing the exit upon investment:** it is necessary to discuss with the entrepreneur the terms of exit even before the investment. These elements are part of the negotiation of the shareholders' agreement
- **Planning the necessary time and resources:** the stake transfer is a time-consuming process and its duration can quickly become difficult to control. The investor must therefore organize it meticulously by anticipating the discussion with the entrepreneur and, in the case of a sale to a third party, by ensuring that the documentation is complete before approaching potential buyers (teaser, investment memorandum, audited accounts).
- **What financial performance to expect?** A large number of the companies financed are performing well (growth in sales, expansion of their teams, etc.), but we must take into account the very nature of these companies. At this early-stage and/or small scale, most of SMEs require a longer period of support, technical assistance resources, and blended finance. Many of them operate in complex environments. All of these elements can create a differential between the "gross" performance and the final IRR (Internal Rate of Return), even if these are high-impact investments with a limited risk profile.
- **Impact and vision alignment:** As a minority impact investor, I&P focuses on exit options that are aligned with the entrepreneur's vision. It is crucial to ensure that the ESG (Environment, Social, Governance) issues and impact areas developed during the partnership are pursued after the exit.

06. To go further



Toolkit « Investing in Africa's SGBs » (2015)

Published by Investisseurs & Partenaires, in partnership with INSEAD, ANDE and EY, this toolkit is aimed at future investors on the African continent, entrepreneurs and all those interested in investing in African SMEs.

It addresses the issue of exits, with testimonials from several entrepreneurs and private equity players (Injaro Investments, XSML...).

About Investisseurs & Partenaires (I&P)

Investisseurs & Partenaires (I&P) is a pioneering impact investing group, dedicated since 2002 to financing and supporting start-ups and medium-sized enterprises in Sub-Saharan Africa.

I&P has partnered with more than 180 companies operating in some fifteen African countries in a wide range of sectors. I&P brings long-term financing as well as strategic, managerial and technical support. As an impact investor, I&P's mission is to maximize the societal impact of its partner companies and contribute to dynamic and inclusive growth in Africa.

The team of approximately 100 people is based in 10 African hubs (Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Kenya, Madagascar, Mali, Niger, Senegal and Uganda), in Paris and in Washington D.C.

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