INTERVIEW

Large funding gap spurs Apis to retain

Matteo Stefanel, Managing Partner & Co-Founder, Apis Partners LLP was in Lagos recently where he and Rotimi Oyekanmi, Partner and Head Apis Lagos office, spoke with Iheanyi Nwachukwu in this exclusive interview. Excerpts

Can you tell us about Apis Partners?

Apis Partners ("Apis") is a private equity fund manager that focuses on providing growth capital to innovative financial services companies across Africa and South Asia. Apis Partners manages over $300 million, through its Apis Growth Fund I ("the Fund") and related co-investments, and it has completed 5 investments to date and recently signed definitive agreements for a 6th investment.

Given our focus on Africa and the importance of Nigeria to Africa, our first office outside of London is in Lagos, Nigeria and Rotimi Oyekanmi, one of the founders of Private Equity in Sub-Saharan Africa, heads our Lagos office. The Fund's existing investments in Africa include Direct Pay Online, a fastgrowing online payments business in East and Southern Africa, and MicroCred, a leading pan-Africa financial institutions focused on credit and savings for MSMEs across 10 markets in Africa, including Senegal, Cote d'Ivoire and Nigeria. And we have recently signed definitive agreements for an investment which operates in Nigeria. The company is called Bankers Warehouse. In addition, we have invested in the 4th largest global money transfer provider, Transfast, which remits substantial amounts into Africa. We have also invested in several financial services companies in India, with relevance for Africa, including EPS, an independent ATM deployment and management company, and Star Health, the largest stand-alone private health insurance provider in India.

Overall, we feel that our sector-led approach to investing in Africa and South Asia has resulted in a portfolio of exciting, innovative and high growth companies, diversified across regions and financial services business models.

Why is financial inclusion a core tenet of your investment mandate?

Financial inclusion is important because it helps bring unbanked populations into the formal financial system, thereby helping to reduce transaction costs, safeguard savings, enable borrowing for investment and provide protection against shocks like medical emergencies. All of this adds up to a real improvement in overall welfare for a given population, whether it be in Nigeria, Kenya or India. At the national level, financial inclusion is also beneficial for any economy. In fact, financial inclusion has a direct and measurable impact on GDP growth: according to Boston Consulting Group, every 1% increase in financial inclusion provides has a direct positive impact on real per capita GDP growth of over 3.5%. In Africa, today, 68% of the population is not part of the formal financial sector. Compared to the rest of the continent, Nigeria's banked population is fairly high at 44% (as at 2014), but there is room for improvement: if you look at Kenya in 2011 the percentage was 42%, and it increased to 75% by 2014. So how did Kenya go from 42% to 75% in just three years? The answer is mobile money and technological innovation. Technology can help to dramatically reduce the cost of financial services so that it is more affordable at the income levels prevalent in Africa. At the same time, technology can help bring financial services to the broader population by lowering the cost of distribution - in the case of mobile money, the distribution of financial services requires only a phone, as opposed to the expensive bank branch infrastructure.

Today, there are 200 million bank accounts and 230 million mobile money accounts in Africa. By 2020, we expect there to be 750 million unique mobile users in Africa - an increase of another 200 million in three years' time, whereas the number of bank accounts will grow at a much slower rate because of the expense and logistics involved in setting up other traditional banking infrastructure such as bank branches. The reality is that mobile money leverages the already existing and readily available mobile telephone infrastructure, thereby reducing the need for larger, traditional and more expensive physical infrastructure for financial services.

Rotimi Oyekanmi

Your two major markets are Africa and South Asia. What are the challenges of playing in these markets?

The two continents are very different but highly complementary. In certain financial services subsectors, India can learn from Africa's lead, and in others, Africa has much to gain from India. For example, mobile money is more widely adopted in Africa, whereas India offers several innovative approaches to agent networks. As such, we find that the opportunity for cross-fertilization of ideas and concepts in financial services from one region to the other is tremendous. This is of course a dynamic situation. As an example, since India's demonetization event last year in India, there has been a lot of growth in digital payments and digital money.

We have published several white papers on financial services in growth markets, all of which can be found on our website. Our latest white paper outlines the different approaches to financial inclusion across Africa and South Asia, by focusing on Nigeria, South Africa, Kenya, India and Indonesia. In doing so, we highlight the inherent complementarity of these markets when it comes to financial inclusion.

We are aware you just signed your 6th investment of the Fund and your first Nigeria deal, can we know more about this Nigeria deal?

As we mentioned earlier, we have very recently entered into a definitive agreement to invest in Bankers Warehouse, which is Nigeria's leading provider of cash management solutions to banks, corporates and the Central Bank of Nigeria. The Company plays a critical role in Nigeria's financial infrastructure and financial intermediation through its core cash management service offering, and we are excited to partner with Bankers Warehouse to expand its presence in the country nationally, and help extend its service offering across the cash value chain. We see a significant opportunity to leverage technology within cash logistics to increase convertibility of digital and physical cash, and therefore increasing the levels of consumer confidence and inclusion within the formal financial system overall.

appetite in Nigeria

You have a successful record in private equity and investment banking, what is your view of those landscapes?

There have been some enormous shifts in investment banking and private equity over the past decade from the highs of 2006-2007 to the great financial crisis of 2008-2009, which have led to fundamental changes in the investment banking model and the emergence of private equity as a preferred source of capital for growth companies.

Of course, investment banking is necessary for helping companies find capital and grow through mergers and acquisitions, and likewise, private equity firms have critical roles in providing capital where it is scarce, and nowhere is this more acute than in Africa. Generally, African companies are offered very limited funding options whether that is from banks or public markets - private equity helps to fill this funding gap. Private equity funds typically partner with entrepreneurs to help them grow their businesses and enable them to access alternative sources of financing. This is a point that we like to stress: growth capital from investors like ourselves, is literally "Partnership Capital". We look to partner with entrepreneurs to invest for growth, and to achieve scale. Incidentally, obviously capital is not the only help that we provide; we also bring substantial sector expertise and networks to help entrepreneurs grow their businesses. This is our role and this is why our partners (our portfolio companies), have chosen us as their long-term partners.

Why are private equity investors still bullish despite worrying macros across many markets? A: I cannot speak for others, but we at Apis are still bullish because we are investing in sub-sectors with strong secular growth rates and in markets with large funding gaps, as discussed earlier. As an example, digital transactions in Nigeria grew at 300% from Jan 2015 to Dec 2016, whereas real GDP growth hit negative 1.5% in 2016. In this way, we focus on investing in areas with large capital needs and strong growth rates, which helps to insulate these markets from global macro volatility.

Coming back to Nigeria, what should be done to encourage private equity investments?

Improving the rule of law and the ease of doing business are critical to encouraging private equity investment. The Minister for Trade and Investment is a highly experienced ex-private equity operator and we know that one of his priority areas is improving the position of Nigeria in the ease of doing business index. This of course encompasses a variety of critical activities, and at a fundamental level, the ability to easily invest into the country, and at the time of exit, the ability to repatriate capital. In our view, there are a lot institutional changes that are taking place today in Nigeria that will over time, encourage private equity investment. To take a simple example, we were at a conference recently where an attendee noted that he was able to get a visa to Nigeria upon arrival at the airport (as opposed to applying through a cumbersome process while abroad). There was a lot of praise for the Minister because what this means is that it is becoming easier for investors to come into Nigeria and evaluate businesses, otherwise they would of course be drawn to other locations that they would potentially find easier. At the macro level, the CBN has of course created an FX window for investors and exporters to bring forex into the country, and for willing buyers and sellers to determine the FX rate. These actions, large and small, will help encourage private equity and foreign investment.

Do you see the Investors and Exporters (I&E) FX window attracting the kind of investments into the country?

A: Definitely, because it involves a willing buyer and willing seller, and we believe this would eventually become the benchmark for all foreign exchange transacations in Nigeria.

Looking at the trends, what are the target sectors for Private Equity investments?

It is not necessarily just the sector that determines a PE investor's interest, rather it is the specific quality and strategy of a business within any given sector. Take the telecoms industry in Nigeria as an example: there were originally four GSM operator licenses with MTN, Econet, Globacom and Nitel / Mtel. MTN was of course an enormously successful investment for Private Equity investors. In every sector, there are winners and losers - it is not the specific sector that determines where an investment goes – instead, it is the specific company and its strategy that are far more important.

We are of course specialists focused on the financial services sector which we feel allows us to more easily identify the differentiated companies in the sector and then also be more helpful to the investee companies in terms of our sector-specific value add.

What are foreign investors saying about the Nigerian market?

There has definitely been a fear of investing in Nigeria over the last year due to currency volatility and the ensuing macroeconomic volatility - and some of the less sophisticated investors are still quite nervous, in fact. Nigeria has a huge population, with a growing consumer story, which is usually an investor's dream. The currency volatility, however, has definitely come in the way of that dream in recent years. In addition, we think a lot people have recognized some of the inconsistencies in past policies which have contributed to an environment of general instability for investors. By and large what we are now seeing in Nigeria is a focus from the government on encouraging investors into the country, and given this focus, we think that eventually they will take the necessary actions to improve the investment environment. For the country to develop, there must be local production, and to support local production, local and international investments are required. Global investors not only provide capital, but also additional skills and expertise to enable local industries to scale efficiently, and compete globally. From a development perspective, this is why it is so important to improve the ease of doing business in any country and actively encourage foreign direct investment.

What can you say about the Apis Growth Fund?

First and foremost, the Apis Growth Fund is a specialist financial services focused fund investing growth capital into innovative companies and supporting dynamic entrepreneurs. Our portfolio and pipeline companies are helping to improve and grow financial sectors across Africa and South Asia, and in doing so, enabling economic development and social welfare. We are excited about our investment portfolio and looking forward to building our pipeline further in West Africa and Nigeria in particular.

What is your view on the future of private equity in Africa and Asia?

From our vantage point, the future of private equity is bright: the sector can help spur economic development by addressing the funding gap in growth markets, and then by providing the expertise to grow and improve local companies, and by extension, local economies. As such, we are very bullish about the role of private equity in general, and the future of private equity in Africa in particular!

What gives Apis an edge in the field of Private Equity players?

We are highly focused on a relatively complex sector and thus possess specialist knowledge and expertise. We feel that in an increasingly competitive world, the era of the generalist is ending. Focus and specialization are tremendously important - this is as relevant for developed markets as it is for developing markets. An old boss and mentor of mine once told me to first "always be relevant", and this is exactly what we try to be with our financial services focus. Through our specialised know-how and presence on the ground, we ensure that we continue to be relevant to our investors, to our partner companies, and to our broader constituencies.

What should Nigerian businesses expect from Apis?

Nigerian businesses should expect Apis to be a partner for growth. We invest in companies to help their management teams to grow their businesses, to achieve their targets, their dreams and their visions. We help our companies with specialized sector knowledge, expertise, international connectivity, and of course, capital.

Our focus is financial services and it is interesting that within the Nigerian economy, several initiatives have been put in place to actively encourage financial inclusion. These include pension reforms, the BVN, credit bureaus, and various mobile money initiatives. One of the things that we aim to do is to help our partner companies leverage these initiatives to unlock the potential in the Nigerian market: this market has only about unique 30 million bank account holders and about 150 million mobile phone subscribers amidst a population of 180 million. We believe that with capital, expertise and the right entrepreneurs, Apis can help to unlock the use of mobile financial services by investing in companies with the innovative services that is required for this. The Fund's investors as well have been extremely helpful in directly supporting our investment mandate. Our investors include developmental finance institutions (DFIs), private investors and many institutional investors, including leading global Banks and Insurers, as well as international Fund of Funds. Among our DFI investors, we count the African Development Bank, the UK's CDC, the Netherlands' FMO, Sweden's Swedfund and the European Investment Bank. As such, Nigerian businesses can also expect to gain from Apis access to some of the most experienced global investors.