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PANEL: *James Hodge – Chairperson*
And Doris Tshepe

TECHNICAL TEAM

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INQUIRY RESUMES

MS TSHEPE: Thank you for your time and for joining us today. I understand that you are going to have a small presentation for us and if you could just start by introducing yourselves. I am Doris Tshepe, I am a member of the panel and I am joined by Mr James Hodge who is the Chairperson of the panel, together with Ms Nolithando Jagazi and thank you and welcome. I will hand over to you to introduce yourself and then to take us through your presentation, thereafter the panel and Ms Jagazi will ask some questions to you. Thank you.

MS LOTZ: Thank you, and hello everybody. My name is Shelley Lotz and I head up Regulatory Affairs at SAVCA. To my right I have Tanya van Lil and she is the CEO of SAVCA, and then to my far-right Keith van Zyl and he is the Head of our Venture Cap Sole Subcommittee and on the Board of SAVCA.

So to give you a little bit of context we will just start off with who is SAVCA and what we are here to do. So we were established in 1998 and we are the Southern African Venture Capital and Private Equity Association, so we have been in existence for over 20 years.

We have about 180 members and that is split between Fund Managers that are the Venture Capital and Private Equity Managers that raise the capital and invest in the live portfolio companies, as well as the, essentially the company that supports support services into the industry, so the law firms and the accounting firms.

What do we do? We do member services like training, conferences, some research which we will talk to later. We assist with ecosystem building and collaborate with other partner institutions and we do advocacy and leadership.

What are we looking to do going forward and really what is our strategy and our strategic imperatives? It is really to be the voice for private equity and venture capital in Southern Africa and to support our members with capital raising and to look at transformation and the role that we play in transformation of the entire industry, because private equity and venture capital and to look at how we can create a supportive regulatory environment as well as capacity building of our members and the broader industry.

So I am going to hand over to Tanya who is going to talk you through some of the stats that we have for the broader venture capital industries. So I know that your inquiry is a little bit more narrow in focus, but we will just talk you through the information that we have got and we wanted to give you a little bit of information about the broader VC ecosystem as well as the players, where did the investments go, et cetera, so that you can understand the landscape and with that I will hand over to Tanya.

MS VAN LILL: Thank you, Shelley. Good morning, everyone, wonderful to be here and thank you for the opportunity to represent the Venture Capital Industry. SAVCA conducts an annual Venture Capital Industry survey and our survey looks at the activity within the industry and when we talk about activity it is really deal activity, so in other words what deals have taken place, which sectors have been invested and the size of the deals, just so that we can track the growth of the sector or how the sector is performing.

What you will see on this particular slide, and if you look at the first, the barograph, it shows you by Rand value, ZAR million, how much money the Venture Capital Industry, so in other words the Fund Managers, have invested into start-ups and scale-ups in terms of direct equity investments in these companies.

So you will see the industry was really very small early on and it is still very much a nascent industry, but it really gained momentum and traction in 2016 and you will see that it really ramped up in terms of the number of and value of investments that were made. All of this information is available in the SAVCA industry survey and we are very happy to share that with you, but if you look on the left hand side currently the industry itself has invested R6, 87 billion in 841 companies, so that is the size of the industry.

Just to put it into context, the size of the private equity industry is over 205 billion, so you can see the Venture Capital Industry is very small in comparison to a more mature private equity industry and based on what Shelley said a lot of the work that SAVCA does is advocacy, research, leadership to help amplify and cap rate awareness about the Venture Capital Industry.

In 2020 R1, 39 billion was invested in 122 companies worth 167 investment rounds, so in other words some companies recovered more than one investment round from either the same or other investments. One of the proof points of the asset class is the ability to achieve exists, so in other words once the VC Fund Managers has made an investment, has supported the company, helped with the growth of the company, can they then exit their stake to another potential buyer or back to the actual management team of the company that they have invested in, and can they then return the funds that they have invested on behalf of their investors, back to the investors with, potentially with some good returns?

So that is the aim of the industry, is to really make an investment on behalf of the investors and ensure that they obtain good returns for their investors, but also a lot of investors require a positive impact, either from an ESG risk management perspective or from a pure impact perspective and impact is very much dependent on who the ultimate investors are in the venture capital or the private equity fund and these investors may have different requirements.

Some may require job creation, others might require part of the just transition and green economy requirements, so it really depends on who the investors in the venture capital fund are and what the investment mandate is, but so exists have increased over the last few years, but it is still a very, there is not as many exists as there are investments, because the industry still needs to mature and they still need to go through the cycle in terms of the investments that they have made. Have they been able to support those investments so that they are mature enough to exit those investments?

If we could go to the next slide, what we just through would be interesting for you to know is contribution by stage of deal and Fund Manager type and we just wanted to give you an insight in terms of where the challenges are fundraising or the funding landscape for early stage investments and in particular for the Venture Capital Industry and then also who the types of investors are that invest in these start-ups and scale-ups.

So if you look at the graph on the left, we look at number of deals and as you can see most of the deals are really in the start-up and the growth stages. Keet will talk to this...

[Mechanical interruption]

MS VAN LILL: The value chain is that there is not enough cede capital at the early stages of an entrepreneur's lifecycle or life stage and then as the entrepreneur grows and other kinds of investors start investing, angel investors, venture capital, corporate investors, but at some point, there is not enough local capital to feel the growth of these organisations.

On the right you will see by number of deals some of the investors that make these investments and the kinds of investors that invest in the early stage would be angel investors, so those are individuals that invest in their personal capacity. You get independent Fund Managers and these are Fund Managers that invest third party money, so in other words a Fund Manager would have established a fund mandate, so they will say which company's geography, industries they will invest in.

The investors then buy into that mandate and invest money into that particular fund and the fund then invests in these specific companies which we call portfolio companies, but privately owned companies.

In terms of the other type of investors we get we call them captive corporate or captive government or captive other and the captive mean it is not third party money from different kinds of pools of investors, so it is not, different pools could be pension fund money or endowments or family officers, high network individuals that would pull into an independent Fund Manager, but a captive corporate would be a corporate that has an in-house venture capital capability and they then invest into early stage start-ups and scale-ups.

Captive government would be someone like the IDC, TIA that invest on behalf of government in these specific start-ups and scale-ups and captive other could be small family offices that run their own venture capital investments.

The next slide, in terms of the sectors and by a number of deals, I think in your inquiry you asked very specific sectors or needed a little bit more detail and unfortunately our industry survey do not really go into that level of detail in terms of the intermediation and which actual sectors, but what we wanted to highlight is just the top five sectors that received investment from venture capital early stage investors in 2020 and it really was software and we have seen a lot more happening in the Fintech space, business products and services, customer products and services and healthcare. The next slide I think, Shelly, you would talk to online mediation and investments.

MS LOTZ: Yes, thanks Tanya. So as per your inquiry you asked us about, specifically about the intermediation space, so what we tried to do with our research partner was to identify the types of sectors that we thought were most likely to include the investments that you were specifically looking at, so we identified E commerce, Fintech specific, retailing or distribution and software.

We then excluded deals where we knew what the deal was and we knew it was not an online intermediation deal, so this is really what we tried to do, is to show that the market size could be in terms of online intermediation deals within the VC industry and then we split it up by start-up, later stage growth and that really talks about where in the lifecycle of the company we are actually talking.

So, in terms of the numbers if we think about it, in 2020 the total number was sitting at about R358 million or R358, 5 million and that was an increase from 2018 which was about R110 million and in terms of the difference between the start-ups and growth it really is sitting between start-ups and growth in terms of the split, so that is the grey and the blue boxes.

In our survey there is not a lot in the later stage, which is the orange one and really it looks roughly equal in terms of that split. So, as we said, it is not definitive, but what we tried to do was give you a little bit of an indication of a narrower focus from our research.

MS VAN LILL: So Tanya spoke to VC and its impact and really what it does and the interesting part about venture capital, which I think is really important, is that there is really this active management in terms of the involvement in the actual underlying company, so the venture capital firm does not just bring capital to the table, they really are there and they have got a lot of experience in helping businesses scale and the access to markets and the connections and the networks and that is really a lot about the value that they bring alongside of the capital.

So, they obviously identify these businesses and think that they have got great growth trajectory and then really, they bring their own skill set to the table. So, what we see is that they really, the VC targets the growth and the gaining of market share and really what they do is they work alongside that portfolio company to try and help them achieve that.

They are more predisposed to an increase in employment and that really means that they create this disproportionate increase in employment and the reason being is that a lot of the capital that goes into these companies is to fund growth and then essentially that ultimately goes into employment. It is not that that is categoric, but that is typically how the growth actually occurs, is funding comes into the company and you essentially go to fund new employees.

There is quite a positive look on transformation or outlook on transformation and this is because the Fund Manager is able to support the portfolio company to transform, so they have influence and they often have a seat on the Board or, and they are actively involved in these companies and they can help them from a transformation perspective.

They also look at the sustainability of the business, they help with corporate governance and they are really looking at it from an external investor lens where potentially these companies would have been small, owner managed and really just trying to get by. So, in terms of our 2018 impact study 97% would have existed or would have developed slow, would not have existed or developed slower if they had not received this type of investments.

So, I have spoken about the active involvement and really it is quite, VC is very good at stimulating innovation and supporting innovative businesses and it is really critical to the South African economic and the diversification, because obviously with the capital comes these skills that help these businesses compete on a local and then an international level and that is really the benefit that they bring. I am going to hand over to Keet who is going to talk us through the VC Industry challenges.

MR VAN ZYL: Thanks, Shelley. Ja thanks, nice to be here, just talking a little bit about the industry challenges as well as the imperatives for growth in the next few slides. So you know, we have done various research, various surveys, so this is kind of a summary of the industry-wise challenges that we face and entrepreneurs face in this space.

So firstly there is a lack of capital, so for venture capital or the VCs to invest in underlying entrepreneurs they need to get that money somewhere. South Africa historically has really funded that kind of capital via network individuals, so you know the individuals basically have a passion for venture capital or understand they need to split their asset base into listed stocks and private stocks and alternative investments and that is where it has come from.

In other ecosystem like Silicon Valley or Israel or the UK you would find a lot more institutional capital, the pension funds, et cetera, backing this asset class and that is just one of the things that SAVCA specifically is trying to address and just educating in terms of you know, how do we get more money behind entrepreneurs in South Africa to stimulate innovation, growth and job creation.

So the second point is around exchange controls, a fairly complex issue, but it really is difficult for these businesses, once they really are successful they grow generally because it is innovation and technology beyond

South African borders. So the South African market with our 60 million people, which are quite a fragmented LSM, is typically too small for these businesses. So they grow into the rest of Africa where there is financial technology going into payments in Kenya or Nigeria or they grow into the US or the UK or sometimes you know, towards the East.

That means they need to employ staff, they need to raise further capital offshore and it is then quite difficult for the international venture capital businesses to invest in South African businesses, unless there are structures outside of the country. So I think that is ja, as I said not a fairly complex issue, but one, there has been some relaxation in terms of loop structures that really helped these businesses raise capital as they grow for further growth, but we need some more.

Similarly around the intellectual property exchange controls it is also fairly complex for these businesses where we are still small, you know just to take a few million Rand offshore and to grow into other markets that really get stuck at SARB in terms of authorised dealers and exchange control and so forth, so you know one has to really look at this with a lens of most of these early stage entrepreneurial businesses that we talk about, the high growth businesses that create the jobs are actually in the knowledge economy and the knowledge economy is fairly borderless when it comes to growth.

There is a lack of skills in this environment. It is still, as Tanya mentioned, a nascent industry, you know. Lots can be said around that, but it is just something where one has to just develop and grow and mentor and find ways that we can bring more specialist skills in to analyse these businesses, to help them grow and to add the knowledge and the networks over and above the funding that is required to invest.

There is a shortage of capital and we already touched on that point. So the cycle of investment starts at cede or growth, so some entrepreneur comes to a typical venture capitalist and says I have an idea, but I do not have, I need capital for you know, a marketing plan, for some staff, for an office, for you know, development of the technology. There is quite a big gap in the South African ecosystem at that stage where it is very much cede capital.

Once an entrepreneur has some traction and they actually have one or two clients on the table and they can actually demonstrate that this idea is taking shape, it is a little bit easier for them to get capital at that sort of series A stage, to use industry jargon. So you know, people want to take the risk, they can quantify, they can invest, but then again when that business now really starts succeeding and wants to grow offshore or wants to grow further into

South Africa or into other markets, it is a so-called series B or C funding which is later stage, is again a big gap. So ja, various gaps around this ecosystem, but you know, more funding could fix that.

The ecosystem, and it is a word we use a lot, and that just means everyone needs to play a part to, I mean the quote goes ‘it takes an ecosystem to raise a start-up’ and what we mean by that is government needs to come to the party to create the playing field which is enabling for start-ups. Big business need to pay quicker, you know use those products and services of the business.

The industries like SAVCA need to really help and educate and perform, the start-ups need to play their part, the funders need to play their part, the universities need to help enable the technology and the intellectual property.

So when you look at that ecosystem in South Africa it still operates in a lot of silos, so a lot of these players do not collaborate, communicate and really think of how we can actually increase this enabling playing field for early stage businesses.

Ja, government incentives and grants and those things are sorely needed to address the, you know market failure at an early stage, but often that kind of goes with sort of a grant or a cheque and it is not properly administered in terms of helping an entrepreneur actually grow. It takes much more than money for an early stage business to take cede, and I think that needs to be more targeted.

Then tax legislation complexities, you know we treat in South Africa big businesses almost the same as small businesses and it is much easier for a big bank or a big health organisation to get their staff to adhere to these challenges versus smaller businesses.

So there was an engagement with, I think to the next, with the Presidency about two to three weeks ago where the ecosystem came together and just presented what are some of these constrains and what are some of the imperatives that need to change.

You know, we do acknowledge in South Africa, I think there is a wide awareness that entrepreneurs are the key to the future, and how do we support them? So you know, some repetition here, but the four main blocks of constraints are around red tape, regulatory barriers, admin complexity, lack of finance, not enough money in the space to fund the entrepreneurs, an uneven playing field between big business and small business and everyone being looked at around the same lens when it comes to employment practices, taxation, et cetera, et cetera and we talked about the skills gap that is there.

So to change this we need to create an enabling regulatory environment for these businesses, incentives for high network individuals or for corporates or for start-ups or you know, just some incentive to get them over the line to actually take that leap of risk finance versus taking that money and just put it in the stock exchange or put it in the bank or whatever, create a level playing field and you know, facilitate that skill set and it is quite an interesting era where we find South Africa in whereas it is the one space, technology skills, where there is actually a lack of enough, there is more demand for, supply for jobs than demand of jobs. So if we can actually create digital skills we can really make a difference in the job creation environment in South Africa.

Okay and the last one, it may be some repetition, but some common themes in terms of the areas of convergence to address the unemployed challenge we need to really support entrepreneurs, as mentioned you know, addressing sort of systemic constraints, regulatory barriers, partnership approach with government and there is much more of these type of interactions, which is quite encouraging, where the industry is coming together to work together.

The regulations should distinguish between big and small business, new models of financing. You know, are we doing it right and are we doing the start-ups justice in terms of how we look at financing them? You know we need, we really have an opportunity to be a hub for innovation. You know Africa, the lens is on African countries like Kenya, Nigeria, Indonesia, have enacted legislation to really facilitate the earlier stage growth and a lot of foreign direct investment is flowing into those ecosystems and you know, South Africa does have such an advantage in terms of the actual industry and the core innovation entrepreneurs that we have and we really need to take advantage of the support again for job creation, innovation and economic growth.

Then ja, then we look at the tech skills and enabling environment to get that all to happen. I am going to hand over to Tanya to talk to some of the thought that is developing in the ecosystem around how we can actually do that at scale.

<u>MS LOTZ</u>: Thank you, Keet. So as Keet said, a couple of us met with the Presidency in terms of looking at some of the challenges faced by the ecosystem and a few months ago various players in the ecosystem, including SAVCA and various others that you see on the screen here, have come together and looked at what are some of the ways that we can create a better ecosystem for high grow start-ups and entrepreneurs and through various engagements, research, consultations we published a position paper related to a Start-Up Act and it is available on the Start-Up Act website there as well.

What the Start-Up Act is, is really an economic bill that looks at various provisions and guidelines that can create a more supportive ecosystem for these high growth start-ups and entrepreneurs and it can either be a standalone Act, as you would find in countries like Tunisia, or it could be amendment to existing Acts based on what was recommended.

So I think one of the more important things in the Start-Up Act is to qualify a start-up as a start-up and then based on the fact that you have this label or definition or qualification as a start-up there is then specific provisions or incentives for you as a start-up to really help grow and unlock growth for these start-ups.

In terms of some of the interventions that are ceded within the Start-Up Act itself there is various interventions, but briefly relaxation of certain tax, so some tax breaks, some tax incentives just to really help these start-ups, but also to encourage more investment into the actual entrepreneurs...

[Mechanical interruption]

MS LOTZ: Keet spoke to you about the skills shortage and how difficult it is for some of these start-ups to acquire the necessary skills, specifically those that are very tech based or tech start-ups. Removing of red tape and regulatory barriers, Keet already mentioned exchange control as one of the barriers.

[Mechanical interruption]

<u>MS LOTZ</u>: ... that growth and then exempt the qualifying start-ups from preferential procurement limitations et cetera, just to give them an equal footing to the large companies that really have the administrative power and muscle and the finances to be able to make sure that they are able to abide by some of these procurement requirements. That was just a brief introduction to the venture capital landscape from SAVCA, both Shelley, Keet and I are now available if you have any specific questions that you would like to ask.

<u>MS TSHEPE</u>: Thank you so much for the presentation and for the time, we really, really appreciate that. I just wanted us to start right at the beginning, you know from your submission and even from the presentation there appeared to be more funding post revenue, I mean to use series A and B and C and we are seeing more of a gap, particularly with the pre, the early stages of start-up and for us we just want to understand, because at that point I think there are particularly SMEs and even firms or start-ups of firms owned by historically disadvantaged background would be requiring a funding there.

In your experience, why is there not opportunities for funding at that level and what should we be doing? What should happen to try and get funding in those early stages?

I am going to ask you, I mean if there are any experiences in other jurisdictions on that, because we seem to find that foreign venture capital firms are looking here into those areas and I just wanted to find out from you what your views are there.

MR VAN ZYL: Okay, I will start and then Tanya can fill in. So ja right, and it is something that is desperately needed in South Africa to fund businesses who are very early stage or still do not have revenue. It is almost like kind of like zero to one where most of the venture capital funding is going when there is already one too many, you know in terms of your client base, as you are saying.

So what is needed there, and in some other ecosystems and even in South Africa it is starting to take place, is so-called mentorship capital and the way to do that is through incubation, incubation, accelerators and those things and what these programs, let us call it entrepreneurship programs are, and it fits very well into your comment around historically disadvantaged about black owned SMEs and all of that, because that could be you know, the key to making funding flowing into these early stage businesses and I think what I am trying to say is it is not just about the funding, you know, you need to actually also educate and mentor and hand-hold and help, and that takes quite a lot of like return on effort, you know, because a lot of these companies will not actually get to that client base and some of them will figure out that the idea is it is not going to work or there is not market traction.

So some will fall out and some will actually go on towards the series A and further funding, but what other ecosystems, including Silicon Valley and Africa has done, is really funding programs, having a selection process of companies coming into those programs who actually do have a chance of then you know, working with experts on developing their idea into a fully fleshed business, which is then much more a) sustainable, or b) fundable or c) both, you know so ja, and Tanya, if you could maybe add to that.

MS LOTZ: Ja, as I think as we said the Venture Capital Industry is nascent, there is not enough VC Fund Managers with big enough funds to be able to invest in all the opportunities that they see. Their investors also expect commercial returns, so although some investors expect impact above financial returns, most of the investors that invest into venture capital funds still expect a commercial return.

So even the venture capital funds themselves will only take risk when, as Keet said, there is already a customer or post revenue, because their investors expect a financial returns, they cannot take willy-nilly risks where, if you compare to Silicon Valley there is so many venture capital funds and Fund Managers, but the market and the scale is to big that if they make 10 investments and eight fail, if two of them succeed those two are so good it carries the other eight that did not succeed, where in South Africa it is the opposite.

If Keet, as an example, makes 10 investments, eight need to succeed and shoot the lights out and two might break even or fail, but they really have a big responsibility to their investors to get returns, who expect them to be responsible with their investment and therefore a lot of the Venture Capital Industry play at the post revenue stage.

There are some that play in the precede very early stage space, because that is where their expertise lie and that is where their investor appetite lie, but there is not enough of those who would be willing to fund the precede stage.

What we have also seen in countries like Israel is that the government provides matched funding or first loss funding so that the venture capital investor, whether it is an independent Fund Manager or a corporate or captive government, they do not take the only risk, someone else is committing onboard and taking the risk with them.

So if it is a shared risk it is easier then to look at your risk profile and invest in precede, but currently in South Africa there is no matched funding or first last funding coming from the government, so the investors that are there have to do it with a pure commercial lens.

MR VAN ZYL: Ja, I think maybe just one more thing to add is the culture, the South African culture of, no one wants to embrace failure, but there is a bit of a risk averse culture, so where investors as well as entrepreneurs are actually, you know when they do have a choice would rather take a career path of you know, corporate versus actually going to try and fail and that stigma across that and once an entrepreneur has failed once, you know to come then back to funders with a second idea and a third idea it does have a, you know there is an education and a cultural element that we all need to work on to just increase our appetite for risk, but ja.

CHAIRPERSON: Ja, thanks. I mean I think what is useful about the discussion at the moment is you know, it is the other parties of the ecosystem, as I think you put it, Keet, that also need to be in place. I mean, can we just get a better understanding of the incubators and the accelerators? Because it seems these can play an important role and certainly some of our discussions with young entrepreneurs it that they have benefited from this, especially historically disadvantaged ones where this almost can create for the funder, let us say the venture capital funder a reassurance that people have gone through these programs beforehand, it almost is a process of sifting out the bad ideas from the good ones, but maybe you can just explain what we have got in this country in terms of the incubators and the accelerators.

MR VAN ZYL: Okay. Yes, there is actually at least quite a number of fairly good ones, but again to the previous point, a lot of that is actually focused on streamline that is lining the entrepreneurs that already have some element of traction you know, and really giving them additional, you know focusing on their financial modelling and focusing on their marketing plan and how do they approach their story and their value proposition and refining something that is already there, you know versus really looking at green fields and just you know, looking at actually POCs and earlier stage businesses.

So there is not enough of it and a few years back government actually leaned in and created an incubation support program where they would fund or partly fund incubators to be established and I am actually not sure, that program fizzled out a little bit and that, it was not you know, that well taken up but you know, that is for instance, if that is well managed, because the incubation business model is quite a difficult business model.

I mean, we have an incubator called Grindstone, so I can just tell you that the business model of an incubator is quite a difficult business model, because it kind of relies on either a corporate sponsorship or someone like a funder being linked to that accelerated, for the not so secret agenda for getting deal flow you know, so to sort of fizzle out ideas from 100 to 20 to 10 and then investing in five of them or whatever the case may be, so ja.

So to give you a sense of the size of the market, I would not actually be able to tell you there are you know, 50 or 100 or whatever incubators, but maybe just to give you a sense of how they are distributed, a lot of them are linked to universities so you know, I mean most, you know whether at Stellenbosch or UCT or Pretoria, have a commercialisation you know, an intellectual property commercialisation arm and a lot of that then has linked it to an incubator to say well let us, how do we commercialise the innovation technologies.

Some of them, like MEST in Ghana and other ecosystems, have really looked at the kind of incubation that you are talking about, is to say really go into the, you know historically disadvantaged ecosystems, create centres of excellence, create you know, office space so-called and access to internet and bringing you know, mentors into the townships and closer to the entrepreneurs that matter, but again a lot of it is focused on just giving them access to internet, access to thought process and access to that and one has to really figure out which type of entrepreneurs, is it the subsistence entrepreneurs, is it the sort of earlier stage or is it actually the technology entrepreneurs that one wants to support, so maybe just some of my thoughts.

MS VAN LILL: Ja, I think there is a lot of incubators and accelerators in South Africa and as Keet said, some of them are really good, others it is more about what they are being measured on and they are being measured on quantity of entrepreneurs that they put through the system rather than quality and how they support the entrepreneurs, so also how they are being measured on their outcomes impact how good they are as an incubator or an accelerator.

I know there was an initiative to help try and standardise how incubators and accelerator are measured to ensure that they really meet the outcomes expected by not only the investors, but also the entrepreneurs themselves, but I think if you speak to some of the entrepreneurs you will find that they jump from one incubator and accelerator to the next and a lot of times they are for the same thing, which is education and mentorship, but if you look at what an entrepreneur actually needs is access to markets, access to financing, access to infrastructure, access to a supportive regulatory environment, et cetera, and a lot of those times the incubators and accelerators cannot offer that, but what they can potentially offer is, if they are good and they focus on quality they can offer a potential pipeline for VC funders or angel investors or corporate investors and then play a role in that regard in terms of access to funding.

MS JOKAZI: Hi there. So I just want to take you back a little bit on the idea that there is very little precede and cede funding, especially investors in South Africa and you mentioned one of the things is that there is a culture of risk aversion, right and you said there are some investor managers available in South Africa that do look at precede or cede funding.

How can we, other than culture, how can we bridge the gap to get more VC managers to be able to take on that risk, just like you know, you made the example of Silicon Valley, to take on that risk and wanting to invest in precede and cede funding start-ups?

MS LOTZ: I can take this one. So I think essentially if you are a VC Fund Manager you have a mandate and you have to sell that mandate to your investors, so you have to get your investors comfortable with what risk they are going to take, so that risk aversion obviously is not, does not necessarily stem from the Fund Manager themselves, ultimately it is the investor's risk aversion.

So the easiest way to solve that is over time you might be able to change the mindset, but that is going to take time, that definitely does not happen overnight. So essentially some sort of risk sharing or first loss where you make that proposition to the investor, seem more like something that they can get comfortable with from a risk perspective. So they are thinking about it from a risk return perspective and at the moment the precede cede seems almost too risky for them based on what they think the potential reward can be.

So the idea around matched funding and what they have experimented with you know, in the likes of Israel and other ecosystems to try and balance that a bit more to get the investors comfortable with what that risk actually represents, then there will be a sort of capital that is happy to flow there and the managers will happily accept that, but it is really difficult for managers to raise capital. That is probably their, their biggest issue is to raise capital.

So if they do not think that they can convince an investor to take that risk they almost, they are not really likely to try, so the idea is that if you can do a blended finance model where essentially you are able to, government takes some risk, other private capital, you are much more likely to get more Fund Managers to move further down that scale, if you want to call it that, so that they will then consider those types of businesses.

MR VAN ZYL: Ja, I think one other example of that is what the UK has done for instance around qualified individual investors you know, with a certain sort of asset base and those types of things, so to make sure that you do not kind of take you know, pension fund money and moneys that should be put away for savings and put it after risky investments and losing your money, but incentivise those investors to invest in a you know, pre revenue cede start-up.

That start-up, if it is successful the upside is it is capital gains free for instance, and what they have further done is to say if that business survives for three years, at least three years, because a lot of research has been done that businesses typically fail within the first three years, it is a bit binary, so that forces mentorship and those things, but if they survive for the first three years and then fail they also have 50% incentive of a lost sharing, you know you can kind of claim 50% of that investment then back from your taxable income.

So it is basically a little bit of a caveat approach versus s a cultural approach just to say look, what Shelley has said, how do we actually convince investors, either individual investors or corporate, to actually make that risk palatable to say okay well, there are some measures, whether it is not investment incentives or first loss or risk sharing, to actually, because it is just a risk and return game, this one point that I wanted to make.

And the other point is just the typical venture capital funding structures have a timing issue. So how it typically works is you raise a fund, it usually has a lifespan of more or less 10 years, you know, so you have to then in the first two to three years invest all your capital and then it is then in those businesses, you have to grow those businesses and typically then exit or sell them to a corporate or back to management or whatever and give that money back to the investors and there is usually sort of a 10 year, 12 year lifespan.

Obviously if you invest in an earlier stage precede business it takes about two to three years for that business to even find the market and find clients, then it takes about three years to then grow and by the time the business is actually just about to take off you have to offload. So I think alternative funding structures is maybe just another point to dot down, which have more of a permanent capital element to it versus a defined lifespan of a fund.

MS VAN LILL: Ja, and historically in Africa governments or development finance institutions have played a significant role in sort of couching risk or come up with blended finance models that would help with that risk aversion.

CHAIRPERSON: Thank you. Can I just have a follow-up on that? You know, just speaking with some entrepreneurs, I mean it just taps into what you are saying, but many are saying it is almost a private equity thinking.

We have got some delay in our technical here, but I trust you can hear me.

<u>MR VAN ZYL</u>: Yes.

<u>CHAIRPERSON</u>: Alright, great. So it seems there is more of this private equity thinking which wants to know that there is an even margin there and they are sinking into something where returns are fairly not guaranteed, but fairly sure. I just wanted to pick up on foreign capital, because we are hearing from many people that foreign investors are more proper venture capitalists in the sense of, and that is why we are getting some interest from abroad and that interest is more the sort of cede level.

So just from what you say, I mean is it that the institutional or other backers of those foreign funds had more risk appetite? And secondly you have raised the issue of expertise, because I mean it is risk and award, but expertise of either the Fund Manager or maybe the accelerator is able to start to reduce that risk in some respects by sifting out ideas that are more likely to succeed than others. So it seems it is maybe that combination and I do not know if you can comment on that.

<u>MR VAN ZYL</u>: I can maybe offer, you know, two or three thoughts on that. So it is as you said, there is an expertise level of technical foreign fund, but it is also the scale that they have. So if you have a 100 million Dollar fund and just to use an example, and you have a bit of a global mindset and more of a risk reward thinking of like well, it is fine if

eight of them fail and two succeed because those two are going to be unicorns you know, the motivation of how do you value these early stage businesses and how does it all work and the expertise of how you structure it, it is a combination of both of those things.

So like we often find in the industry where a foreign VC would, let us say put a million Dollars into a start-up and, or 10%, let us call it that and you know, we had a conversation with them is to say how do you, how did you value this business you know, at 10 million Dollars basically if you now do that calculation and they are like no, we did not value the business, I mean for us it is more or less just prospecting you know, we want to put a flag into Africa for market access or almost buying optionality. Sometimes it is more just you know, financial inclusion.

So the motivation behind the investment is not always actually purely just to make a return, you know so I think that does help the entrepreneurs who are able to tap into that, because you are very right, not so much on the even tone margin, but if you look at a typical local venture capitalist they are really going to ask some tough questions around who is your clients, how are you doing it and you know, do not care too much about profit, but you care about cash flow because there is not this well, where is the next round going to come from, where is the next round going to come from.

So it is a little bit of skills as well as the motivation behind the investment and also the fact that it is a, with respect, a bit more of a spray and pray approach where they can actually afford to take a loss. Tanya has a few points.

<u>MS LOTZ</u>: Ja, so also what we have heard from our members and some of the international investors that we have spoken to, because the ecosystem is so mature and there is a lot of players in the ecosystem, when they take an equity stake it is very, it is rally minority, it could be a 2 or 3% equity stake, whereas our Fund Managers, because there are not as many of them they will take a 25% equity stake and sometimes they even go up to 50 or 60%, because there is no other investors that can come in and support the growth of this company.

So even the number of investors and the equity stake that they take is very different to the local market. As Keet said, it is a bit of spray and pray, but also because they are Dollar based or Euro or other currencies that are much stronger than our local currency you know, a million Dollars for them is short change where it is a lot of money for us. The average venture capital investment is anything between R10 million and R20 million and that is still at the high end.

So even our size of investments are much smaller and if you take exchange rate into consideration it is so much more attractive for them to invest in their currency.

And then the last thing is just a lot of the, when they come in, they are looking for tech-based investments, either for scalability or the fact that they are looking for innovation and they want to take the innovation back home or back to a corporate or back to a market that they know that this innovation will solve a problem that they have and it is a cheaper way to get that innovation rather than to start from scratch.

MR VAN ZYL: Ja, which has a double edged sword, interestingly a lot of our companies exit too early, so we find in the venture capital space where a business becomes quite interesting in a growth scenario and an international funder comes and looks at this ecosystem and says well okay, so let me get this right, for 20 million Dollars I can actually buy the whole company and the entrepreneurs are like ja, and that is kind of a double edged sword, because that company then you know, gets sold where it could swing through and become a billion Rand company or the next Discovery Health or whatever the case may be, but they actually buy out too early because there is not funding available, you know and that entrepreneur has got to weigh up a burden versus a long and hard growth story.

MS TSHEPE: Thank you so much. I just wanted to move to focus areas of where, in terms of where funds then go to. In your presentation you, we observed that you are talking about Fintech as an area where there has been a lot of traction on VC investment. I wanted to find out why there has not been a lot on online intermediation platform, and to what extent the existence of established platforms in this market would impact on whether or not funding would be provided by VCs.

<u>MR VAN ZYL</u>: So, there is a bit of an echo, can you hear me, okay?

<u>MS TSHEPE</u>: I can hear you now.

<u>MR VAN ZYL</u>: So the online intermediation platforms from an investor perspective, most of the investment that goes into venture capital backed businesses are actually business to business businesses, so it is businesses that actually solve a problem for either other small businesses or for merchants or for big businesses, you know and the reason for that is because of our B to C, if you do a business to customer direct thing, 60 million odd people in our country, which is very much fragmented, like who is your target market and if you actually really start looking at what are you selling or who are you trying to sell the service for you know, E commerce or platforms or education technology platforms, there are those investments, but it is a much more difficult sell because of our target market is not as big.

If you go to China or US or you know, just the sheer endogenous target market that you sell for, that you can sell to, makes those markets much more attractive for business to customer or B to C businesses. So, the next Facebook or the next you know, Amazon or whatever is not necessarily going to come out of South Africa, but yet we have amazing technology in you know, financial inclusion and those types of things where it is more lending towards customers and then that kind of thing usually goes through intermediaries, etcetera.

MS VAN LILL: Ja, so I cannot speak on behalf of our members in terms of their investment choices or decisions that they make, but one of the things that came to mind for me is that it takes so much longer to get traction for a business to consumer kind of business and as Keet said, the fund lifecycle is a 10-year fund, so because that traction takes so much longer your fund duration might not be able to accommodate your business to consumer kinds of intermediation businesses.

CHAIRPERSON: Can I just follow up on that? I mean, obviously you are looking at risk and return, as you put it and I mean, it would strike me part of that must be, the potential of the return is who you are up against in this particular market.

MR VAN ZYL: Yes.

CHAIRPERSON: And so, it would seem you know, there are others that are really larger corporates that it must impact on your assessment of your prospects and risks of success, I mean it just sounds sensible as a matter of economics and finance. So maybe if you can just comment on that and then I have got another question as well.

MR VAN ZYL: Ja, I think one of the key, one of the 14 keys things you look at is the competitive environment and the changes of this business taking market share or making an inroad into a market share, very difficult because of the lack of funding, lack of marketing efforts and so forth if there is already an established player with corporate money behind it to really go after that market share, so therefore the innovation or the so-called mote around the business that you look at, you have to kind of say what is the key differentiator against the competitors.

So, when you look at, and not to harp on Fintech but just to use that as an example, you know if you look at the earlier stage business that comes up with the peer-to-peer financial solution that is interoperable with Mpesa and Kenya and easy on your phone and so forth, I mean it is easier to do that as an alternative way of easier finance versus establishing a new bank, you know which is just offering the same services and the same with E commerce players.

You know, there are some established E commerce players, but then you need to find your knish, you know. Is it for this or is it for you know, kitchenware or is it for you know, so that online marketplace for intermediation need to really have a differentiator and if there is already a big player in that market, I am not saying it is impossible, but you know the typical investor would ask that start-up listen, why would the big gorilla in this space not just continue to innovate and eventually buy you out?

And that is what kind of happens, you know there is businesses, specifically in logistics, to use another example that kind of really looks at last mile delivery and those types of things and then they start making inrodes in their markets and then they get bought up by a mass mart or a big corporate to actually facilitate their last mile logistics, you know and so it is not a bad thing necessarily, but it is ja, it is corporate innovation via MNA versus RDMS, as Tanya said earlier.

<u>CHAIRPERSON</u> Ja, and that is probably why to your earlier point there is probably a lot more B to B deals going around. I mean, we certainly have observed that in Fintech that there is a huge amount of B to B, because if you can bring a corporate onboard as well you can get a market quite quickly and probably investors will back you.

I just wanted to also, because your market point, I mean you know, we will hear over the next three weeks, but we have engaged with many township entrepreneurs who I suppose are innovating, opening markets, developing online markets as well and they do not seem to at least succeed in getting much backing at the moment. I mean, is it because that the township market is not a big market? I mean, you have already talked about the 60 million, like South Africa is not a big market and now we are looking at maybe a lower LSM customers and the business model is looking into that economy. Is that also unattractive, just from your 14-point plan or assessment criteria?

MR VAN ZYL: No, I think not at all, mainly because... There is a bit of feedback. You can hear me, right?

CHAIRPERSON: Yes, yes, we can.

MR VAN ZYL: Mainly because if you can actually crack a, let us all it a last mile delivery as an example or logistics or cap rate hubs within a township economy, if you can actually do that at scale, whether it is transport or you know, there are some examples of success there, if you can make it succeed in the typical township environment your emerging market, target market really opens up, you know, you know, the Latin America, India, Pakistan, you know, so it is, and never mind mentioning the rest of Africa.

So it is definitely a, if I ask you is that market attractive or not attractive, it is very attractive from the perspective of developing an innovation or a solution or a marketplace that works and if it works in a South African township economy it will work in India or it may work in India or in Latin America and so, so there is fairly good examples of South African start-ups that have gone that route outside of Fintech as well, but ja it is just very difficult that we say why are there not more investments, because that is the holy grail, right, is how do we as an ecosystem help that entrepreneur get to market or get funding and how do we even get introduced to that entrepreneur? Ja, no I would love that, I would love the answer to that.

MS VAN LILL: I just want to add to what Keet had said. Even though the SAVCA membership base has venture capital and private equity Fund Managers and we have actually a big transformed member base, so there is a lot of female and black owned Fund Managers that invest in the space.

When we did a flash survey with our members out of interest about the township economy, about their investments into a knowledge of, we were actually surprised of how few or our members actually invest in the township economy or have knowledge or experience to invest in the township economy, so we also think that there is a lack of knowledge, awareness and experience to recognise the opportunities within the space.

MS LOTZ: Ja, I think just to add on what Tanya said, there was a session that was hosted with Absa on the township economy and essentially what came across was that this perceived risk about investing into the township economy was, is it an actual risk or is it a much higher perceived risk than reality?

And I think people were not always able to really quantify and understand that risk, so when you are trying to work that risk return trade-off, if your perceived risk is much higher than your actual risk you might get the wrong answer and there was a lot more, I guess understanding and really knowledge sharing around what it means to invest in the township economy. How can people be supportive rather than to say well, you know I do not understand it, so I am not going to invest or I am going to get to the wrong answer because my risk return calculation is not, inaccurate.

CHAIRPERSON: I mean, I think I find that interesting because it was a question that I think the panel has had is you know, to what extent is it the, let us say the life experience or maybe more endogenous nature, the Venture Capital Industry in this country that is a barrier for some of this type of investment and where the transformation or the Venture Capital Industry may unlock some of this potential.

So, I mean, I am interested to hear that obviously there may be a difference in actual risk and perceived risk or as you said Keet, how do you meet these entrepreneurs?

So, has there been some self-reflection within the industry about how to change that?

MS VAN LILL: Ja, so a big part of SAVCA's strategic objective is, as Shelly said in the beginning, to play a supportive role in the transformation of the sector and SAVCA itself runs various programs to support the transformation of the sector and build new Fund Managers that have different investment mandates.

Our first programs looked specifically at black and female owned Fund Managers with the South African investment mandate, our second program was more Southern African based, but was female Fund Managers with a gender lens investment mandate and our third program next year we are launching is actually a VC Fund Manager program looking at cultivating and creating more black owned VC Fund Managers, because there is a lack of black owned VC Fund Managers in South Africa.

MR VAN ZYL: Ja, so on the self-reflection of the industry for sure there is, I am not sure if that argument is always hundred percent correct to say that because the traditional venture capital firm is you know, a typical white owned firm, not as much female, therefore they would only invest in you know, people who look and interact with them.

I mean, there has been a hell of an effort from the VCs to find you know, the right kind of entrepreneurs to invest in and it is quite difficult, you know even for the black owned VC funds to actually find high growth you know, black owned businesses to invest in you know, versus, this more supply demand versus the other ones out there, but to Tanya's point, I mean the SASME Fund that was an initiative at R1, 3 billion and that, their mandate was specifically to invest that money, the majority of that money behind black owned Fund Managers, black owned businesses and some of the VCs, including you know, our fund that have you know, benefited from that money have a mandate, signed mandate issue that more than half of that money has to be invested behind programs that advance black owned businesses and specifically in Johannesburg there is a lot more of them versus Cape Town, so there also is the micro ecosystems in South Africa have different flavours to the kind of entrepreneurs you find.

So there is definitely a SAVCA concerted effort for transformation across every imperative we do, but then from the industry perspective, as Tanya said, it is where the money comes from and that money comes with strings attached and more and more we find that in a positive way that money comes with a transformation element to it to say well, your team, how, what are you doing in that space and that will have a knock on effect and it is not an immediate, I mean it is not a cause and effect immediate, but it will follow through in the investment base and we are already seeing that happening.

CHAIRPERSON: And outside of the SME, the SASME Fund, I mean to this question, how much of your institutional investors have more of a transformation mandate?

MR VAN ZYL: There is for another example... Sorry, there is a bit of feedback here, so you can hear me okay, right?

CHAIRPERSON: Ja, I think it is I do not switch off my microphone, so that is the problem.

MR VAN ZYL: Okay, so not enough of them because of the fact of the systemic issue that the pension funds and so forth do not actually invest at all in this space, never mind you know, come with this is the kind of investments that we want you to make.

Recently the Mineworkers Investment Company, MIC, has launched the Khulisani Fund which is R150 million, specifically venture capital only for black owned businesses. They put a callout, more of a funnel type thing and I cannot now exactly remember the stats, but I think they got 400 and something applications and they have narrowed it down to the top 20 that they were now going through due diligence et cetera, so and that is you know, obviously Mineworkers Investment Company, so they are member based and the way they do and they do it in a skilled professional way.

There are, I suppose, other examples, but I mean I do not want to single Fund Managers out necessarily, but what I am trying to say is the more of those funders, the more MICs and the more SASME Funds and pension funds coming onboard you know, they can make the rules in terms of what their money should or should not invest in, right and then the Fund Managers need to sign up and basically adhere to that mandate, so if that mandate is matched, that is fine.

So, but to answer your question ja, not enough, but there are more and more starting to emerge, understanding the entrepreneurship imperative and how important it is to get the funding to entrepreneurs and more specifically to the right entrepreneurs.

MS VAN LILL: Ja, so there is not a lot of institutional money that flows into venture capital at the moment. A lot of the institutional investors are becoming more and more comfortable with investing into private equity, so you will find pension funds and development finance institutions directly investing into private equity, but not as much into venture capital.

So, in terms of institutional investors that might invest with the transformation lens would be corporates and they invest because it is part of the ESD spend or ESD specific funds and it is usually about specific targets that need to be met from an ESD perspective and then these entrepreneurs as part of that fund then form part of their supply chain, et cetera, but there is, besides for the SASME Fund hardly any institutional capital flowing into venture capital.

MS TSHEPE: Thank you so much. I just want to go back, Keet, you mentioned the SME Fund report and capital is involved in that, I wanted to find out, I mean how far has the funding, the provision of funding gone there? Have we, how much is going into HDP funding for example? Is any also in precede?

MR VAN ZYL: Yes, yes.

MS TSHEPE: And what are the focus areas? If you could just, ja.

MR VAN ZYL: Okay, so really you should be having this conversation with Ketso, Gordon and Claudia and the SASME Fund team, they can give you better statistics, but because we are quite close to them, I can definitely give you a high-level view.

So, they have done, and I am personally a big believer in the answer to venture capital model is not for the venture capitalist to try and convince the pension funds and the corporates themselves, a fund or fund model, like what the SASME Fund is, is in my opinion a much better model because they have the expertise to do due diligence on Fund Managers, you know.

They look at the track record, they look at you know, what is the mandate and then they can also allocate and they have allocated their funding in a specific way to catch the whole ecosystem and what I mean by that and to answer your question, very much, more than 50% of that funding is definitely allocated and being invested into majority black owned businesses, so that is factual. How much that percentage is, I would not be able to tell you.

MS VAN LILL: Over 50% of R1, 3 billion.

MR VAN ZYL: Ja, so it is R1, 3 billion is the total amount that they raise and at least 50% of that is two black owned businesses and then towards how much go into cede and how much go into later stage and so forth. So, they have done something very clever, is they really looked at that R1, 3 billion and where they allocate.

So, some went to Life capital, let us call it that, or 4DI Capital and some of the more established VCs, which I guess in this conversation is still early stage, but not cede necessarily, but then they have also funded the University Technology Fund and some incubators and accelerators, some businesses that are hardware incubators which definitely precede the money.

So, they kind of looked at it, and say, and again I am not particularly sure about exact allocations, but X percent will go to post revenue to our funds, X percent would go towards pre-revenue funds and X percent would go towards entrepreneurship development like incubators and accelerators and as I said you know, we as [indistinct] capital, to use another example, have an accelerator called Grindstone.

The SASME Fund invested in that accelerator, but with the specific contract that we had to sign is to say more than 50% at least of that, the beneficiaries of that accelerator, the people getting onto that accelerator, must be historically disadvantaged and it really has been for us eye opening in terms of when you actually really have that as your goal that you can actually achieve the most amazing entrepreneurs and investments.

In fact we were doing three new investments into the black owned and female owned businesses in the next month out of that incubator accelerator because of the fact that we just found these amazing entrepreneurs, which we would not have found if it was not for the fact that it was mandated, you know, but ja, I think specific stats on the SASME Fund, I think you know, is best answered by the team, but ja, those are the high level facts, but maybe just to answer your question more directly, yes some of that money and a significant part has gone into precede incubation and pre revenue businesses.

<u>CHAIRPERSON</u>: Alright, I think I have just got a couple of

last questions and then we will let you go, just following up on this last point you made that you felt that this was a useful way to go or one of the better ways to go.

I mean if we have to look across, I think you called it the sort of matching or first loss funding, we have now got the SME Fund which is, as I understand CEOs putting money in as well, but I think what is coming through is the mandate needs to change and the mandates will, you know if that mandate is you know, pre revenue funding then you will get pre revenue funding, VCs will go out and find those entrepreneurs.

So, if we look at the sort of different types of approaches do you think this sort of approach in changing mandates is a good way to go or do, we still need a sort of matching glass or other elements?

MR VAN ZYL: I think Tanya, you can pull that, but I do not think these two-point software mutually exclusive. I think to be able to give that mandate to the Fund Manager you will have to price that into your, wherever that money comes from, whether it is from CEOs or from government or whatever and there will be either a first loss or a higher management fee or you know, institutional support mechanisms or whatever priced into the mandate, because if we just, if you do not link those two things you know, the mandate would not make sense because the funders of the fund or funds would be disappointed because they will not get their returns.

MS VAN LILL: I think also if I remember correctly initially government was going to match what the CEOs put in to the SASME Fund.

MR VAN ZYL: Ja.

MS VAN LILL: And that was effectively instead of the 1.3, it was going to be double that and I think that would have been a great start because you know, once they are fully invested or at least fully committed, now they have to go and raise more funds and where do they go and, you know so I guess it is a, so that is one way to do it and that will probably achieve certain things.

I think for me the first loss or the matching, you are looking to crowd in private capital or you are looking to crowd in capital to where you want it to go, so the idea to use capital to blend with other capital to make it attractive so that government does not have to fit the bill for all of the funding, what they want to do is they want to use their capital in a really smart way that allows other people to come in and get comfortable with that risk.

So, it is all about, there are different pots of capital that are sitting in different initiatives and maybe it is just thinking about those pots of capital and saying okay well, is it really going to the entrepreneurs we want it to go to, is it going to the very risky or the cede, precede stage? And if it is not, okay well, how can we use that capital better to essentially leverage it off, essentially leverage it to actually crowd in the other private capital which may be comfortable investing there if they can get their head around how that risk return profile actually looks.

MS LOTZ: But I think as Keet also said earlier on, it is not just the capital that the entrepreneur needs, so we can throw as much capital at the entrepreneur as possible, but it is what is that support for the entrepreneur who gets the capital in terms of being able to scale and grow?

CHAIRPERSON: Thanks, that is very useful. My last question was when we were talking about the sort of township economy, Keet, you had said that sometimes it is the idea and scaling into other countries in a sense and when you were talking about foreign venture capitalists you were sort of chasing the same idea almost. I am looking for innovations, ideas that may have a bigger, and in the context where South Africa is only 60 million, I mean are the local venture capitalist firms able to scale globally or do we need to in a sense collaborate with global venture capital firms as well, and to what extent are those global venture capital firms or even its bilateral into India, to what extent to those partnerships exist?

MR VAN ZYL: Okay, so at the moment, the first part of your question, I do not believe that the local venture capital is, I mean the businesses they invest in can scale globally, but the VC teams are just too small to really scale and do a proper due diligence of a business and India and then in South America and then in the UK, you know so because of this hands-on approach the venture capitalists locally are not big enough yet.

Maybe in five to 10 years from now I would have a different answer, but I cannot see them really scale internationally. Opportunistically the venture capitalists do transactions, specifically in the rest of Africa and sometimes in other ecosystems, but that is not a core focus, it is more just to really, the game is to invest in local entrepreneurs because of the Rand cost base, because of the skill set, because of the innovation and the fact that we really have amazing entrepreneurs over here that solve global problems, whether global is by Africa for Africa or whether it is different.

So to indirectly answer your second question, for sure the collaboration efforts between local VCs and international VCs is a better route to go, because those international VCs have the scale and they also have very much a culture and a history of co-investment, so most, not most, all examples of the best VC examples that you can think of whether it is you know, the Air B&Bs or whatever of the world, you will look at their capitalisation table and you will see four or five top VCs co-investing together into those businesses, but each one brings a different market, access point and a different skill set, et cetera, et cetera.

So, do the collaborations exist? It is also one of SAVCA's core focuses, is to smooth that you know, those different ecosystems and collaborations, but they do exist, they do exist, but not you know, there is not active brainstorms on how do we you know, tackle Africa or South Africa. It is more opportunistically where these top VCs in South Africa and in Silicon Valley et cetera, do know each other and do have a coffee when we see, when they are here or when we are there and also because of the fact that in an ecosystem a local VC has the upper hand when it comes to understanding who is who in an entrepreneurial ecosystem you know, and because we know that, for instance if we, Knife Capital wanted to invest in Kenya it is almost pointless for me to fly there and meet some entrepreneurs and stuff, because they would have already talked to the local VCs there and they would have either rejected them or whatever.

So, it is much better for us to find a local VC then and say listen, can we augment your balance sheet or co-invest in the next round with you into these businesses. So, I do not know if that answers your question, but ja, the collaboration effort is happening. Not at scale yet, it will and it could happen at scale because the international VCs come back to us.

And maybe one last example, what actually happened to that other point on one of our slides around series B and C funding is when these local entrepreneurs need let us say 10 million Dollars or 20 million Dollars to scale and this is too big for the local ecosystem, the VC ecosystem to handle, they would typically go to Europe or to Silicon Valley or whatever and those VCs would then actually circle back to the top VCs here and to say hey, I am keen to invest 20 million Dollars into company X in South Africa, you guys are one of the top VCs, can you not invest a little bit into that company and just be our, kick the tyres and be our eyes and ears on the ground with a vested interest to co-invest with us.

So even if the companies bypass the top VCs here, it comes back because it is a, ja I do not think those international VCs want to come in and compete into this ecosystem, they would rather collaborate with the ecosystem.

MS VAN LILL: Ja, so there is, it is very much more informal, relationship-based, but there are not formal bilateral agreements or aspects in place to facilitate this, but there is potential, an opportunity which I think the local VC market would welcome.

MS LOTZ: I think also just to add one thing that is quite important, if you are going to collaborate and look for an international VC like a US one or a European one to co-invest with you into a company, often they have as part of their structure or their mandate, they can actually only directly invest into their own jurisdiction.

So you often have to do a restructure and that is where the exchange controls is really important in how the tax struggling and the IP essentially, if you are looking to co-invest and essentially augment your own capital with international capital, you need a structure that works for the entrepreneur, for the local funder and for the international funder and typically now that is a very long process and because, call it an international VC fund or a US VC fund, can invest in any jurisdiction in the world and they have got lots of people saying oh, I have got this idea and this company and we can do X, you know it makes them kind of scratch their heads a little bit and say hang on, but I now have to jump through a lot more hoops and deal with jurisdiction and sort of regulation that is not really very familiar to me and sometimes just that makes it very, they are then hesitant to do it.

So, they must really want to back that company to be able to do it, because once they have done it and they have had to jump through these hoops they are like oh hang on, this is actually a lot more difficult than it would be to invest in say a similar company in a different jurisdiction, so it is just that to bear in mind and maybe that is also why we have not had as much of this sort of local and foreign co-investing opportunities, because it is pretty difficult for them to do.

CHAIRPERSON: Well, thank you very much and thank you for the amount of time you have given us, I know it is precious, but I think certainly we have learnt a lot and I am sure the public has as well, so thank you very much for your participation and I hope you continue to participate through the inquiry process and through other processes as well. So that does bring to an end our morning session and we will resume at 14:00 with Naspers and part of that will be Naspers Foundry, which is also a venture capital fund and so we can also pick up some of those conversations later. I think that closes our morning session. Thank you.

INQUIRY ADJOURNS

CERTIFICATE OF VERACITY

I, the undersigned, hereby certify that, ***in as far as it is audible***, the aforegoing is a ***VERBATIM*** transcription from the soundtrack of proceedings, as was ordered to be transcribed by Gauteng Transcribers and which had been recorded by the client

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