Angel Investing in Africa
State of Play: Finding Product/Market Fit
November 2018
Study expanse

- 17 angel leaders interviewed
- 33 initiatives surveyed across 22 countries
- 75 individual investors surveyed
Growth in initiatives

- 76% have launched since 2016
  The ecosystem is very nascent!

- First groups: Cairo Angels (2010), Carthage Business Angels (2011) and Angel Hub Ventures (2011)

- ABAN was founded in 2015
Who launches angel investing initiatives?

Three types of organizing forces

- 32% “Angel Champions”
- 32% “Entrepreneurs”
- 36% “Support Organizations”
Founder features

Founders shape the operating and business model - as well as the investment approach

Angel Champions
- High Net Worth Individuals
- Tend to come from more traditional business backgrounds
- Longer “runway” - angels will self-fund activities
- Typically most effective at mobilizing other investors
- Examples: Lagos Angel Network, Newtown Partners, Carthage Angels

Entrepreneurs
- Professionals & “Mid Net Worth Individuals”
- Entrepreneurial enterprises - need to identify operating and business models - fast
- May have more comfort and familiarity with technology
- Examples: Viktoria Business Angels, 237 Business Angels, Accra Investment Club

Support Organizations
- Incubators, development agencies, etc.
- Often formed from client (entrepreneur) demand - relationship with investors is largely introductory
- May have some initial source of funding
- Examples: Kampala Angel Network, Enterprise Hub
Angel group startup journey

Understanding milestones (it takes time) and developing plans are critical to success

1) Ideation
   Socializing with prospective investors
   Community mapping

2) Establishing an MVP
   Recruiting members
   Sourcing first deals
   Hosting initial meetings

3) Finding Product /Market Fit
   Testing operating & business models
   First deal closed

4) Scaling Up
   Managing a portfolio
   Adding new members
   Generating income/stable budget

5) Mature
   Investment exits
   Expanding - new investment models or geographical reach

Start

Success

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Landscape in Africa by stage of development
Technical assistance & funding support

Largely comprises master classes and coaching

31% of groups reported receiving TA

6% received public-sector funding
Skills of angels

How angel managers rate their skills - and those of members*

- Skills are often learned experientially - without experienced investors involved
- Lower skills in highly technical areas
- High risk of deals falling apart in the later stages of negotiations/DD and investment structuring*

*Note - these numbers were self-reported, could be lower
Operating models

- **31%** Networks
  Primarily introductory services

- **38%** Groups
  Structured processes from sourcing through investment

- **4%** Syndicates
  Clusters of groups

- **4%** Funds
  Pooled investment vehicles

- **23%** TBD/Other

**Other innovations include:**

- Impact investment funds partnering with local angels (Iungo)
- Diaspora chapters (Cairo Angels)
Activities of angel initiatives

- Entrepreneur pitch prep: 66%
- Due Diligence: 79%
- Negotiate term sheets: 69%
- Investment structuring: 59%
- Facilitate the transaction: 52%
- Post-investment management: 66%
Managers/Champions are key

Hours worked per week

- 1-5 hours: 52%
- 6-10 hours: 21%
- 11-20 hours: 14%
- Full-time: 14%

Other stats:
- 28% females
- 72% have made an investment
- 28% are compensated

Active investing groups have managers
Business models

Running an angel group costs money

- **43%** of initiatives have sources of income
- **33%** collect dues from members, the primary source of income
- **15%** receive some sponsorship from development agencies, embassies and/or service providers

**African angel leaders are resourceful:**

- Carthage runs incubation programs funded by development agencies
- Viktoria offers complementary consulting services
- Cairo Angels receives success fees on closed investments

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Getting deals done is tough

Percentage of initiatives that have closed an investment

- Yes: 52%
- No: 48%

It often takes more than a year to complete the first deal

Once a group is active, 3.8 months is the average anticipated timeline to close an investment
Investing amounts*

More structure brings larger pooled investments

- **$25,000**: Minimum aggregate investment anticipated by 67% of initiatives.
- **$100,000**: Median for the max pooled investment amount anticipated (i.e., most groups will invest $100K or less).
- **< $5,000**: Almost half of leaders (47%) expect members will write $5K or smaller checks.

*Note - data set remains very small*
Instruments being tested

Equity is preferred: 97% use or anticipate using equity, but other instruments are being explored

- 52% use/will use convertible notes
- 48% use/will use traditional debt
- 52% use/will use revenue/royalty share
Most active angel groups

By # of investments

1. Lagos Angel Network: 32 (~$1.5M invested)
2. Cairo Angels: 21 (~$2M invested)
3. Carthage Angels: ~20
4. Newtown: ~15
5. Jozi Angels: ~15
Regarding exits

It's still very early

1. Outside of South Africa, few, if any, angel groups have had an exit

2. 65% of individuals surveyed have not had an exit
### How to measure progress

% of angel leaders who rate these as priorities

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td># of Investments</td>
<td>86</td>
</tr>
<tr>
<td>Just keeping it alive</td>
<td>72</td>
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<tr>
<td>Exits</td>
<td>48</td>
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<tr>
<td>Amount Invested</td>
<td>45</td>
</tr>
<tr>
<td># of members</td>
<td>41</td>
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</tbody>
</table>
Study takeaways

This is patient capital

- There is - encouragingly - a lot of variety to African angel investing initiatives
  It will be important to document what is - and isn’t - working and in what contexts

- Very early days of investing, especially in sub-Saharan Africa
  Technical assistance and knowledge sharing are needed

- Attracting and retaining (serious) investors will be key to success
  Activity may not be matching perceived enthusiasm - still a lot of hype

- Upstream (deal flow) and downstream (follow-on capital) relationships must be strengthened
ABAN role:
Objectives for 2019 - 2021

• **Convene:** ABAN Summit
  Build community of investors - 250+ annually

• **Train:** Master Classes
  Target 40/year across 20 African cities

• **Develop Groups:** Technical Assistance
  Support the launch/development of 10 initiatives annually