

December 2020

WDB Growth Fund - Newsletter

*R10 million capital
injection by the
Standard Bank Group*

*The Fund's
Investments resulted
in the creation of 11
permanent jobs*

Highlights for the year

Like most of the world, the WDB Growth Fund could not have anticipated the events that unfolded in 2020. The COVID-19 pandemic has had unprecedented effects on the global economy and the South African economy was no exception. Having concluded the Grant Agreement with the Jobs Fund (National Treasury) at the end of 2019, the Fund looked forward to the start of 2020 to start on delivering on its key objectives under the Grant Agreement. The year also started on a good note with the conclusion of the Subscription Agreement between the Fund and Standard Bank. Standard Bank invested R10 million into the Fund, further proving that corporate South Africa has every confidence in the Fund to deliver on its key mandate of contributing towards the creation of resilient and growing small businesses that can create jobs.

The significant challenges presented by the national lockdown affected the Fund's ability to source new business and pipeline development as well as the Fund's portfolio companies in varying degrees. Only in the latter part of the year, did the Fund start seeing an increase in the pipeline, however most of these businesses fell outside of the Fund's key mandate of funding businesses that can create jobs. Despite these challenges, the Fund made two investments in the current financial year; the first was a follow-on investment in Matebese Aluminium Group (MAG) and the second was a new investment in Palesa Pads, the details of which are provided below.

Recap - Fund investment strategy

The WDB Growth Fund is a social impact Fund whose mandate is to invest growth equity capital in small and medium sized businesses (SME's) that are scalable and can create sustainable jobs. The Fund prioritises businesses that are black women and youth owned (51% equity ownership by black people) who have a trading record of at least 2 years generating turnover of at least R2million per annum. The fund invests amounts of between R2m to R10m in each business acquiring significant minority equity stakes. The Fund adds value in its investments by providing non-financial support which include, strategy development, access to markets, mentorship for entrepreneurs and linking the entrepreneurs to the network of other entrepreneurs. The Fund also assist businesses to establish governance, management and financial reporting processes.

The Fund is a section 12j Fund, which gives investors a tax deduction for the full amount that they have invested, investors can also claim Enterprise supplier development (ESD) points for their investment in the Fund which can count towards their own BEE scorecard. The Fund is also 51% black women owned which gives

underlying investee companies black ownership points. The aim of the Fund Manager is to raise another R25m by the end of June 2021.

Fund Performance highlights

Despite a difficult period for the Fund's portfolio companies, the Fund's overall performance was resilient over the 2020 period. The Fund's NAV as at end February 2020 was R40 107 613. The Fund managed to grow its revenue from R3 340 881 in the previous year to R5 323 015 for the year ended 29 February 2020, a 59% growth. The revenue comprises of Capital and Raising Fee, interest and dividends received. The Fund has committed capital of just under R100m, including the Jobs Fund grant funding of R40million.

Portfolio Analysis

Primestars

Primestars was Incorporated in 2004 and has been operational for 16 years. Primestars is a well-established and profitable business that specializes in facilitating Youth Development programs for high school learners from underserved communities. The WDB Growth holds 69% equity in Primestars.

Since its establishment 16 years ago, Primestars has trained and educated over 1 million high school learners. Primestars utilizes the 'Educational Theatre of Learning' model to enhance the educational process, particularly for disadvantaged youth in South Africa. The youth are bussed to cinemas across South Africa to learn and are exposed to global thinkers and best practice in the areas of entrepreneurship, financial literacy, career guidance, etc. These programmes are designed to help South African youths to develop skills that are needed to participate more meaningfully in the economy in order to create a more sustainable environment for South Africa.

Primestars' business wasn't immune from COVID-19 and the company had to quickly adapt its business model and content distribution channels towards online channels using platforms such as WhatsApp, TV, Radio and face to face education. Primestars Maths and Science revision program for grade 12, once again received a stamp of support and approval from the Minister of Education and Primestars was able to continue providing the critically needed assistance to high school learners from previously disadvantaged backgrounds. Primestars reached over 30 000 students across South Africa from August to November 2020.

Primestars creates Public and Private Partnerships, and collaborates with companies, organisations and universities over the years. Primestars programs have been supported by various organisations namely, Proudly South Africa, Department of Basic Education, Department of higher Education, Department of Science and Technology & Department of Small Business to mention a few.

Matebese Aluminium and Glass ("MAG")

MAG is a 100% black owned company established in 2008 and operating in the Pietermaritzburg-Edendale area. The company offers a wide range of aluminium and glass products for both commercial and domestic applications.



During the 2019 financial year WDB purchased a 35% equity interest in MAG for an amount of R2.2m. In addition to the equity investment, WDB advanced a further R2.2m loan to MAG in June 2020 to assist the company to expand its business.

MAG formed a new warehousing division which is located in Durban (and a satellite office in the Pietermaritzburg) where the target customer base is located. The improvement in the business model has seen MAG moving up the value chain with increasing its market share.

The warehouse division's operation plan includes bulk acquisition of raw materials (Aluminium profiles) straight from local and international suppliers at wholesale prices.

The formation of the new warehousing division and its resultant operating costs led to the decline in EBITDA during the current period. This was in line with expectations for the first year of expanded operations. Furthermore, the business was impacted by COVID as it had to close for 3 months. It is anticipated that the company will achieve scale during the second year. MAG employs 22 people and the Fund's latest investment would help create a further 4 permanent jobs.



Moshate Media ("Moshate")

The Fund invested in Moshate in 2018 and has a 30% equity stake, with the Founder owning 70% equity. Moshate is a Public Relations and Events Management agency that has gained extensive experience in both the private and public sectors over their 8 years of existence. Moshate offers a 360-degree approach on integrated communication and management services, specialising in media relations, stakeholder engagement, exhibitions and events. Moshate aims to bring their clients closer to their respective audiences and to manage the brand reputation with creative and actionable strategies.

The Company's key service offerings include; branding and design, exhibition management, public relations, brand strategy and experiential marketing.

Moshate's business has had significant challenges as a result of the national lockdown and the impact of COVID-19 on the sector and its clients. Prior to COVID-19 the company had started embarking on large marketing campaign to increase its market share and to diversify its client base, however the impact of these efforts has been delayed due to the onset of the pandemic. Unfortunately, Moshate had to retrench most of its staff as well. Recently Moshate has pivoted its business to offer online marketing events.



Palesa Pads

Palesa Pads is a social enterprise that manufactures and distributes high-quality, reusable sanitary towels in Southern Africa. Pads are hand made in Germiston, South Africa by previously disadvantaged women. The company employs over 40 women, in its factory. For most of these women, Palesa Pads was their first place of formal employment. The Fund's investment will contribute to the creation of another 10 to 12 jobs over a two-year timeframe. The Company aims to be the leader of the **CLOTH PAD REVOLUTION** in Africa and in the process restore dignity to millions of women and girls with every process in the supply chain.

The Fund took a 31% equity stake in Palesa in August 2020 and the Founder retained a 69% equity stake. The Fund invested in Palesa Pads in order to partner with the Founder, who plans to grow the Company's footprint in Africa through sponsorships and collaborative partnerships, as well as distribute pads through retailers in South Africa. Palesa Pads focuses on education and entertainment to change the face of periods thereby helping girls and women to gain confidence and to take control of their overall well-being and lives.

Most of the business is derived from donations and sponsorships made by corporate companies as part of their social investment budgets to enable young girls from previously disadvantaged backgrounds to stay at school longer by donating high quality sanitary pads through schools. One of Palesa Pads key success factor is its partnership and high touch education and customer care approach. The Company also has a direct selling market that is growing daily, with mothers choosing Palesa Pads for themselves and their daughters.

Palesa Pads has performed relatively well during harsh trading condition of 2020 due to the nature of its products, the Founder's deep relationships and passion for her business, customers and most important, the girls who are the ultimate beneficiaries of the product has kept the business going.

Current Pipeline

The Fund has faced challenges in identifying businesses that are growing and creating jobs given the difficult economic environment even pre the COVID-19 induced economic collapse. The SME sector has also been severely impacted by the COVID-19 pandemic, making it even more challenging for the Fund to find suitable businesses to invest in. However, over the past quarter since South Africa moved to lower levels of national lockdown, we have started to see a slight improvement in the pipeline. However, few of these businesses are creating new jobs. The fund has a current pipeline of potential investments of just under R25 million. The potential investments span across different sectors such as recycling, software development, clothing, retailing and food manufacturing. These potential investments are in various stages in the funding process and will, in all likelihood, be concluded in the first two quarters of 2021 depending on the outcome of the due diligence process.

The Jobs Fund

The year started off positively for the Fund after concluding the Grant Agreement with the Jobs Fund in September 2019. Under the Grant Agreement, the Fund committed to deploying capital to 20 SMEs and creating 252 jobs over a three-year period. The total grant amount is R40 million, with the Fund set to raise R60 million in matched funding, the majority of which has been raised. At the time of signature and the beginning of the year, the macro-economic landscape looked different to what was eventually experienced during 2020. As the readers are aware, the country experienced the highest levels of unemployment since the dawn of democracy and there was further contraction in the country's GDP. The Covid-19 pandemic has unfortunately added to the country's woes, with consumer and investor confidence at an all-time low.

As a result of the dramatic change in the economic landscape due to COVID, the Fund was falling behind the very aggressive targets that were set initially. After various engagements with the Jobs Fund team, it was decided that the project targets timelines had to be reviewed and a Remedial Plan was agreed with the Jobs Fund

Some of the key remedial actions were as follows;

- Extension of the timelines to achieve targets
- The Fund introduced additional strategies of recruiting SME's. The Fund built a database of third-party consultants to assist with SME recruiting and it also employed co-funding strategies, where the Fund would co-fund with other major institutions.
- The shift in emphasis from pre to post investment mentorship. The reason for this is to ensure that those SMEs who receive funding receive dedicated post investment support.
- Improvement in deal execution by streamlining the deal execution process.

Governance

Despite the COVID-19 restrictions, the Fund still managed to hold the requisite number of board meetings via virtual meeting platforms such as Zoom and Microsoft Teams. This year unfortunately saw the resignation of Thandie Mashego from the WDB Growth Fund Board and the Fund's Investment Committee. The Fund remains grateful to Thandie's strategic input and positive influence in the Fund.

The Investment Committee saw the introduction of Fuzlin Levy Hassen as its newest member. Fuzlin brings with her a lot of experience in the SME funding space.

The Fund also will bid farewell to the current Fund Manager, Sifiso Simelane. Sifiso joined the fund in the beginning of 2020. He is replaced by Sibongile Zulu. Sibongile brings with her a wealth of knowledge and experience, having worked for organisations such as the Industrial Development Corporation.

Current Investors

The Fund counts some of South Africa's key blue chip companies as its investors. The Fund's current investors are:



Appreciation

We appreciate all our investors and partners for their continued support in making our vision of growing SME's a reality. The past few years since the establishment of the Fund has been both challenging and rewarding. We will continue to do our best to invest the funds in the most impactful way and contribute to growing resilient SME's in South Africa.

We wish you a restful, safe and joyous festive season.

From the WDB Growth Fund team

