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Private Equity

Paystack Payments Limited, a Nigeria-based FinTech company that processes payments for businesses in Africa, has raised USD 8.0 mn (Kshs 806.3 mn) in Series A funding, the first round of financing given to a new business after the initial capital used to start the business. Founded in 2015, Paystack Payment Limited is a Nigeria-based company that enables businesses to accept payments from around the world via credit card, debit card and direct bank transfer on web and mobile. The platform was officially launched for use in 2016 and currently processes over 15% of all online transactions in Nigeria, powering payments for over 17,000 organizations in Nigeria, which include telcos, government agencies and airlines. It processes an average of USD 20.0 mn (Kshs 2.0 bn) worth of payments per month on behalf of its clients.

The round of funding was led by Stripe, an American online payment processing company, and also included funding from Visa Incorporated, a global payments technology company. Additionally, the company received follow-on funding from Y Combinator, Tencent and angel investors Tom Stafford (Managing Partner at Digital Sky Technologies Global), Gbenga Oyebode (Founding Partner of Aluko & Oyebode and Board Member of MTN Nigeria), and Dale Mathias (Co-founder of Innovation Partners Africa). The investment is expected to facilitate the expansion of Paystack across Africa and scaling up of its engineering team. This is the second time the company is receiving funding after it received seed capital of USD 1.3 mn (Kshs 131.0 mn) in 2016 from international investors Tencent, Comcast Ventures and Singularity Investments. The capital investment was used to build out its engineering team in Lagos, as well as grow its sales and marketing operations, to accelerate product development and customer on-boarding.

The investment in Paystack Payments Limited comes at the wake of accelerated investment in the tech-startup ecosystem in Sub Saharan Africa. According to ***The Mobile Economy: Sub-Saharan Africa 2018 Report***, 124 tech startups across Africa raised a total of USD 560.0 mn (Kshs 56.4 bn) in 2017, a 53.0% increase from 2016. Sub Saharan Africa accounted for USD 515.0 mn (Kshs 51.9 bn) in more than 100 deals. Of this amount, FinTech accounted for 21.0%, solar for 21.0%, e-commerce for 19.0% and Educational Technology (Ed-Tech) for 12.0%. This endorses the increasing investor interest in solutions that work towards solving social challenges, such as limited access to financial services, education and energy. Kenya, Nigeria and South Africa remain the most popular investment destinations, accounting for 76.0% of total funds raised by tech start-ups in the region.

In the education sector, half year financial results released by Advtech Group, a private education provider listed on the Johannesburg Stock Exchange, indicate that the company acquired 71.0% of Makini School Limited for a consideration of ZAR 130.8 mn (Kshs 1.0 bn). Makini School Limited was acquired through a Joint Venture between Schole (Mauritius) Limited, a subsidiary of Schole Limited, which is a London-based education provider, Caerus Capital, a leading international education consultancy group, and Advtech Group in May 2018. The total value of the Makini School Limited buyout amounted to ZAR 184.2 mn (Kshs 1.5 bn) of which ZAR 157.7 mn (Kshs 1.3 bn) was goodwill accounting for 85.6% of the value. Property, plant and equipment was valued at ZAR 15.6 mn (Kshs 124.0 mn) accounting for 8.5% of the transaction value. Given that Makini Schools has 8 schools spanning across its 4 campuses along State House Avenue and Ngong Road in Nairobi, as well as Migosi and Kibos in Kisumu, it is unlikely that the ZAR 15.6 mn (Kshs 124.0 mn) included the land and buildings. This could be an indicator that Advtech Group, Schole (Mauritius) Limited and Caerus Capital do not own the land and the buildings but only operate the school.

This acquisition adds 8 schools and an estimated 3,200 students to Advtech Group's portfolio.

The investment is the latest evidence of the increase in investor interest in the education sector in Kenya. Other investors who are setting up institutions in Kenya include:

i. Advtech Group, who is set to open a school in Tatu City under its Crawford Schools brand, offering the THRASS (Teaching, Handwriting, Reading, and Spelling Skills) education system, which focuses on pre-primary education,
ii. South Africa based Nova Pioneer, who have set up a Primary and Secondary School in Tatu City offering the 8-4-4 curriculum,
iii. Investment firm Centum Limited who have established Sabis International School in Runda Estate in partnership with Sabis Education Network, and,
iv. Cytonn Investments, through its education affiliate Cytonn Education Services (CES), who provide education for all levels, from the Early Childhood Development Education (ECDE) to Tertiary Education, beginning with a Technical College branded, Cytonn College of Innovation and Entrepreneurship.

The investments are an indication of investors' interest in the education sector in Sub-Saharan Africa and are motivated by (i) increasing demand for quality and affordable education, with the Gross Enrolment Ratio (GER) having doubled in the last 10-years to 8.5% in 2016 from 4.5% in 2006 according to a report, "The Business of Education in Africa" by Caerus Capital, and (ii) support, such as ease of approvals, offered to investors in the education sector by governments looking to meet Sustainable Development Goals (SDGs) targets of universal access to tertiary education.

Private equity investments in Africa remains robust as evidenced by the increasing investor interest, which is attributed to; (i) rapid urbanization, a resilient and adapting middle class and increased consumerism, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (iv) better economic projections in Sub Sahara Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Sahara Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.