https://the97.fund/
the97@ortusafrica.com

Venture Building Series

Topic 5: Exit

The 97 Fund

By Innovation Village ©

OVERVIEW

The 97 Fund managed by **Ortus Africa Capital**, is an Open-end Investment Vehicle (HoldCo) ("the Vehicle") that builds and invests in high growth early stage companies. **The 97 Fund adopts a Venture Builder + Fund model.**

Sectors Covered:
Fintech, Health, Transport and Logistics, Supply Chain, Insuretech, Energy, AgTech, EdTech, Tourism, Manufacturing, Media and Creative Arts.

Region(s) Covered:
Domiciled in Uganda with East Africa coverage and potential for jobs of the future at scale amongst women and youth.

The 97 Fund takes an active, hands on approach that leverages our entrepreneurial and early stage expertise.

At The 97 Fund we help entrepreneurs to increase their chance of success by applying extensive operational knowledge and providing access to networks, capital and funding.

https://covid19.cda.ug/

PARTNERS

mastercard foundation — Young Africa Works

***Brief**:* The Mastercard Foundation's new strategy, Young Africa Works, outlines how, over the next decade, it will focus on finding solutions to the youth employment challenge and reducing poverty in Africa.

***Role**:* Vehicle setup; Anchor Investor (Covid19 Relief Fund)

ORTUS AFRICA CAPITAL

Brief: Ortus Africa Capital is a an Advisory and Investments firm, building Africa's largest multi-assets alternatives investments platform.

Role: Investment management and operations; Compliance; Venture building; Pipeline sourcing and screening

Ideas to life... The Innovation Village

Brief: The Innovation Village is a destination entrepreneurs call home. Their purpose is to deliberately grow innovation by putting in place a platform that challenges assumption, ignites thought and questions status quo.

Role: Pipeline Sourcing; Venture building support

KAIN Kampala Angel Investment Network

Brief: The Kampala Angel Investment Network (KAIN) gathers innovators, entrepreneurs and Angels under the mutual objective of bringing IDEAs to life.

Role: Pipeline Sourcing; Co-Investment partners

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RECAP

Recap, Venture Building Series #1: An Introduction to Venture Building

Venture building is a business and product development approach that enables an organization to create new products, services and processes from scratch.

A Venture builder, also called a startup studio, startup factory, or venture studio - an organization dedicated to systematically producing new companies using their own ideas and resources, which they help grow and succeed.

Venture Builders take the following approach:

Portfolio Funding
- Who invests in the Venture Builder?
- Who invests in the participating ventures?

Ideation, Prototyping and MVP Launch
- Where do the ideas come from?
- Who is owning the Pipeline?
- How to go from idea to product.

Early-stage shaping
- How is the actual venture shaped in the bootstrap phase?
- How is the management team put together?

Supporting Growth and Scaling
- How do we support growth of the ventures?
- How do we interact with the venture's management?

Exiting Ventures
- Who are the ventures typically exiting to?
- What is the expected success rate and return?

Recap, Venture Building Series #2: Ideation, Prototyping and MVP Launch

The Design Thinking Process

Empathise → Define → Ideate → Prototype → test

Empathise
- Researching and observing in field studies – and watching, engaging with and listening to your users.

Define
- Goal is to construct a meaningful and actionable problem statement.

Ideate
- Coming up with ideas by breaking your problem statement into smaller actionable pieces.

Prototype
- A simulation or sample version which enables you to test your ideas and designs.

test
- Once you've created a prototype, you'll need to put it in front of real users.

The minimum viable product (MVP) is that version of a new product or service which allows a team to collect the maximum amount of validated learning about customers with the least effort.

Recap, Venture Building Series #3: Early Stage Shaping

Venture Builders either hire a management team or external consultants to work with the ventures to help them refine and align their business models to their target market and geography through achieving **product-market fit** and **problem-solution fit.**

Product-Market Fit

- Customer segmentation
- Understanding customer needs
- Winning value proposition

Problem-Solution Fit

- Persevere
- Pivot

Recap, Venture Building Series #4: Scaling and Growth

Venture Builders help grow your business by offering industry-tailored services that can be leveraged across all portfolio companies by exploring the ventures through an intensive learning program that support scaling and growth.

Scaling vs Growth

Scaling

Scaling refers to the increase in revenue without a substantial increase in resources

Example of scaling

A company gains $50,000 in new revenue for which they spend only $5,000 on marketing automation tools to allow more efficient marketing to a wider audience. The businesses' gains outpaced its losses, allowing it not only to grow but also to scale.

When businesses scale, they add revenue at a faster rate than they take on new costs/ resources.

Growth

Business growth refers to an increase in revenue as a result of an increase in resources (capital, employees, technology)

Examples of Growth

A company gains $50,000 in new revenue, but in order to do so they had to hire a new sales agent with a $50,000 salary. The business gains and losses are evened out, so even though the company is growing by one new employee and corresponding uptick in revenue, it really has not gained much value.

When businesses grow, they are increase their revenue as fast as they are add costs/resources to enable that revenue increase.

EXIT

Defining Exit

An exit strategy is a contingency plan that is executed by an investor, or business owner to liquidate a position in a financial asset or dispose of business asset once predetermined criteria for either has been met or exceeded.

An exit strategy may be executed when the venture is non-performing /unprofitable. In this case, the purpose of the exit strategy is to limit losses.

An exit strategy may also be executed when the business venture has met its profit objective.

Exit forms

1) Liquidations
2) Disinvestment

"The method by which a venture capitalist or business owner intends to get out of an investment that he or she has made in the past. In other words, the exit strategy is a way of "cashing out" an investment."

Exit Forms

Initial Public Offer (IPO): also known as stock market launch. This involves the venture offering shares to the public for purchase for the first time. The venture investors and other private investors will get their portion of shares who can put them in the open marketplace for trading after an initial lock-in period.

Mergers & Acquisition: Merger- the combination of two companies to form a new company. **Acquisition-** the purchase of one company by a new company in which no new company is formed.

Trade Sales: the venture company is sold or merged with an acquirer for stocks, cash, or a combination of both.

Share Buy-back: In this method the entrepreneur buys-back the investment share from the venture builder and takes it back to being a privately held company.

Bankruptcy: The company may just go bankrupt.

Write-offs: These are voluntary liquidations that may or may not result in any proceeds.

Exit Strategies

Ideally, an exit strategy allows an entrepreneur to plan how to optimize a good situation, rather than get out of a bad one, but it is used to plan for both scenarios.

EXIT STRATEGIES

01

Management buyout. This happens when an executive team combines its resources to acquire a portion of the business

02

Outside Sale
Selling to someone outside the company

03

Employee Stock Ownership Plan
Is a type of qualified retirement plan that enables owner to gain liquidity and transition ownership.

04

Initial Public Offering (IPO)
Offering share of a private business to the public in a new stock issuance

05

Transfer Ownership to Family
Selling or transferring company ownership to family members or heirs.

When are Exit Strategies used?

An exit plan may be used to:

- ❑ Close down a non-profitable business
- ❑ Execute an investment or business venture when profit objectives are met
- ❑ Close down a business in the event of a significant change in market conditions
- ❑ Sell an investment or a company
- ❑ Sell an unsuccessful company to limit losses
- ❑ Reduce ownership in a company or give up control

When to Exit

Entrepreneurs

- When the market is unclear and declining
- When the profit is tied up in the business
- When the business is growing steadily
- Before raising another around of funds

Venture Builder

- When the venture is experiencing continuous losses
- When there is a big idea or new thing that will excite shareholders
- When the business model has been proven
- Before valuations get too high

Examples

airtel Acquired WARID TELECOM

Acquired WhatsApp

Importance of Exit strategies

01

Business continuity:

Exit ensures that a company will run smoothly; for example in strategies like mergers and IPOs.

02

An economic recession:

Exit plan enables a venture and investor avoid economic impact.

03

Unexpected offers:

Large players may look to acquire your company. Even if you do not have any intentions of immediately selling the company, this provides the venture with information on whether to proceed with the exit plan.

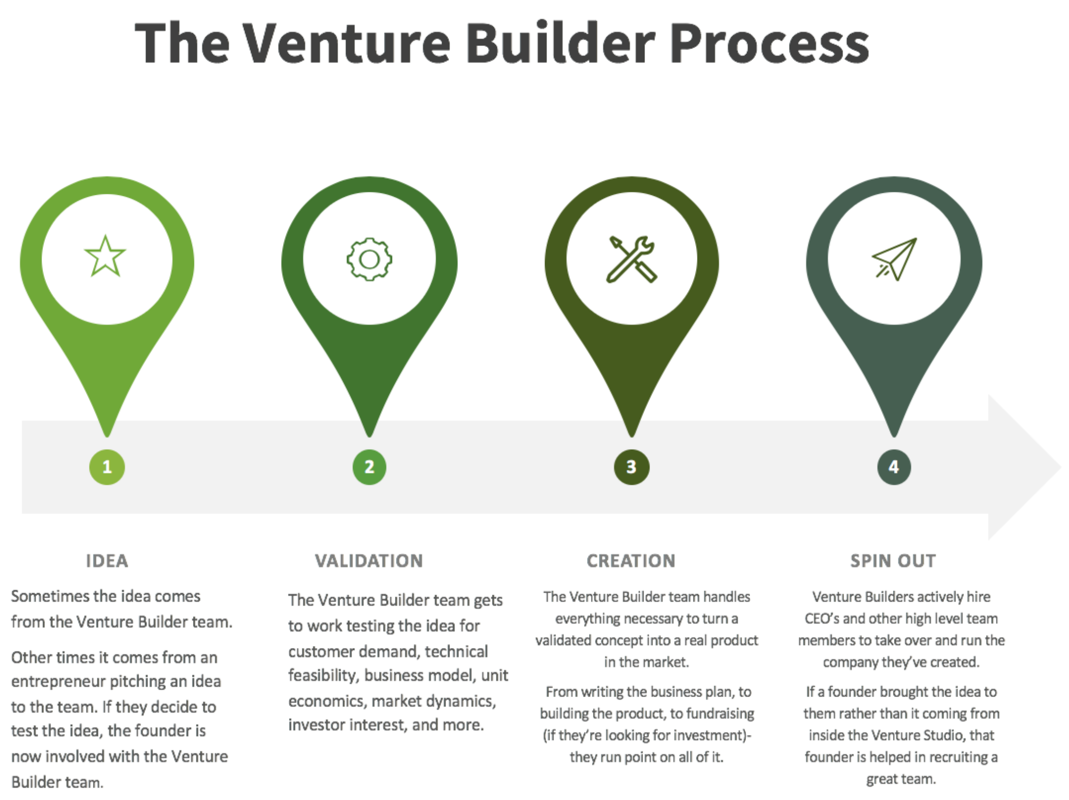
04

A clearly defined goal:

By having a well-defined exit plan, you will also have a clear goal. An exit plan has a significant influence on your strategic decisions.

Conclusion

An exit strategy should be planned while running the business. There are many exit strategies that a small business owner can consider, including liquidation or walkaway, family succession, selling the business, bankruptcy, and taking a company public when exiting venture building. The best exit strategy is the one that best matches the small business and the owner's goals.



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Connect

Ortus Africa Capital, 1st Floor, King Ceasor Square, 9 Portal Avenue, Kampala, Uganda

+256 414 667 986 | info@ortusafrica.com
the97@ortusafrica.com
klegesi@ortusafrica.com
www.ortusafricacapital.com
https://the97.fund/