



Q2 2020 East Africa Funding Report

A review of the key funding trends into East African technology companies over Q2 2020

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Executive Summary

- The coronavirus pandemic caused a contraction in the number of deals in early Q2 2020. However, the average number of deals per quarter in 2020 by East African technology companies is higher than the 2019; increasing from a median value of 36.0 rounds per quarter to 40.0 rounds per quarter.
- FinTech companies in East Africa secured only 9.5% of the total amount invested in Q1 and Q2 2020, down from 43.0% of total funding in 2019. Healthcare technology increased the proportion of deals closed (increasing from increasing from 7.0% in 2019 to 12.5% of total deals in H1 2020), mobility start-ups increased both the number of deals closed (increasing from 12.0% in 2019 to 15.0% in H1 2020) and proportion of funding (which increased from 4.3% of total funding in 2019 to 31.8% of total funding in H1 2020).
- The proportion of rounds totalling \$200,000 USD and below closed by East African technology companies increases from 11.5 rounds per quarter in 2019, to 19.5 rounds per quarter in 2020. This represents a proportional increase from 41% of all rounds to 64% of all rounds.



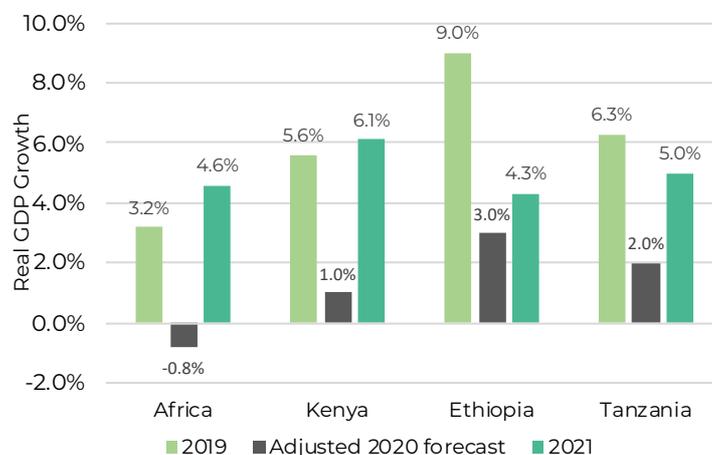
Investment Overview

Funding into East African technology companies totalled \$860.984 million USD in 2019 across a total of 116 rounds. Across Q1 and Q2 2020, East African technology companies have raised a total of \$83.867 million USD across 58 rounds. As we have seen in previous reports, the impact of the coronavirus (COVID-19) pandemic appears to have changed investor appetite, favouring smaller early stage funding into business models such as e-Commerce and telemedicine, which are supposedly more resilient to the impact of movement restrictions and lockdown. In East Africa, where investment into financial technology has been growing steadily year-on-year, are we beginning to see a longer-term change in investment behaviour?

Analyst View: Despite the movement restrictions imposed as a result of COVID-19, investment into African technology companies in Q2 2020 reached \$272.398 million USD across 127 deals. However, technology companies in East Africa secured around 11% of the total (\$29.38 million USD of this amount across 40 deals). What is significant is that both the size and stage of deals has shifted, favouring smaller, earlier stage investment over Q2 2020. 48.8% of deals over Q1 and Q2 2020 have totalled less than \$500,000 USD, compared to 31.2% over the whole of 2019.

In a report published in May 2020 by Deloitte, a management consultancy, they estimated that the adjusted forecast for real GDP growth in African economies for 2020 reduced from 3.2% to -0.8%. The adjustment from the 2019 value is largely a result of the coronavirus pandemic. Their analysts predict that Kenya will likely reach 1.0% GDP growth (down from 5.6% in 2019), Ethiopia will hit 3.0% (down from 9.0% in 2019) and Tanzania will achieve around 2.0% (down from 6.3% in 2019) (figure 1).

Figure 1: Real GDP Growth in East Africa Economies 2019 – 2021



Source: Deloitte, Economic Impact of Covid-19 on African Economies (2020)



The report not only highlights the impact of the pandemic to the domestic industries; tourism, aviation and the flower industry in Kenya for instance have been severely impacted. It also articulates the impact that a downturn has in the connected economies across the East Africa region. For instance, Deloitte estimate that remittance inflows to Tanzania in 2018 accounted for 0.71% (\$430.0 million USD) of total GDP. These diaspora remittances are expected to decline in 2020 due to job losses and economic slowdowns anticipated in both developed and emerging markets alike. As problems such as higher unemployment and decreases in disposable income start to bite, are markets starting to worry?

As the coronavirus pandemic unfolded, these fundamental changes in consumer behaviours and spending habits were expected to have profound impacts on venture capital. CB Insights, a market data company, estimates that venture capital funding immediately after the Global Financial Crisis (Q4 2008) decreased by as much as 16%, however, VC deal activity in the US decreased by 6% in Q1 2020. In reality, much of the slow-down occurred in Early Q2 2020 before picking up again shortly afterwards once teams had adjusted to their new ways of working (figure 2). The median number of deals per month in 2019 across the whole of Africa was 37.0, in 2020 this fell slightly to a median value of 35.0 deals per month. In East Africa the median value has fallen slightly from 12 deals per month in 2019 to 10.5 in 2020. What is not yet clear, is if these are indicators of short-term resilience or a longer-term adjustment to a new business as usual.

Figure 2: Total number of deals per month in East Africa in Q1 and Q2 2020



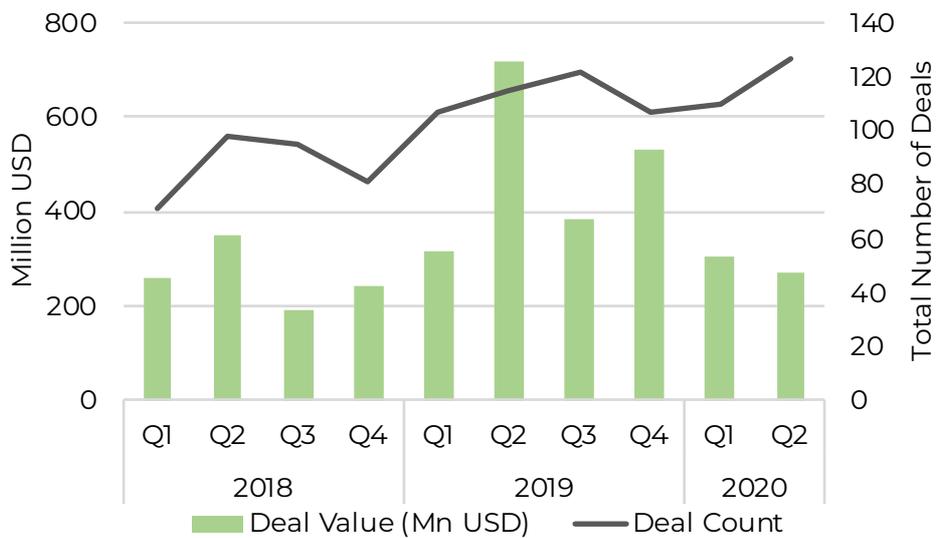
Source: Baobab Insights 2020

In fact, the number of deals per quarter has been steadily rising across Africa for some time; in 2018 there was a median of 88 deals per quarter in 2018, raising a median total of \$253.534 million USD per quarter. In 2019 there was a median of 111.0 deals per quarter raising a total of \$459.235 million USD per quarter. In 2020, while the number of deals per quarter has risen to a median value of 118.5 deals, the median amount raised per quarter has dropped to \$289.382 million USD (figure 3).



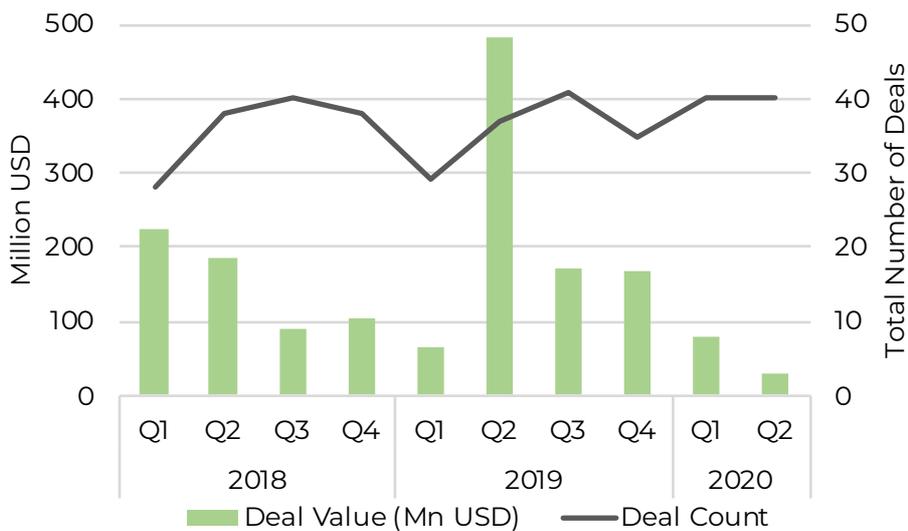
In East Africa, the trend has been much steadier, in 2018 there were a median of 36 deals per quarter raising a median total of \$145.250 million USD per quarter (figure 4). This fell to a median of 36.0 deals per quarter and totalling \$170.936 million USD per quarter in 2019. Much like the trend across Africa, 2020 has seen an increase in the number of deals per quarter (with a median of 40.0 deals per quarter) but a decrease in the average amount raised (the median raised per quarter totalling \$54.772 million).

Figure 3: Total Investment and deals across all sectors into African technology companies from 2018 to 2020 (YTD)



Source: Baobab Insights 2020

Figure 4: Total Investment and deals across all sectors into East African technology companies from 2018 to 2020 (YTD)



Source: Baobab Insights, 2020



A short-term shift to seed stage investment or a longer-term adjustment?

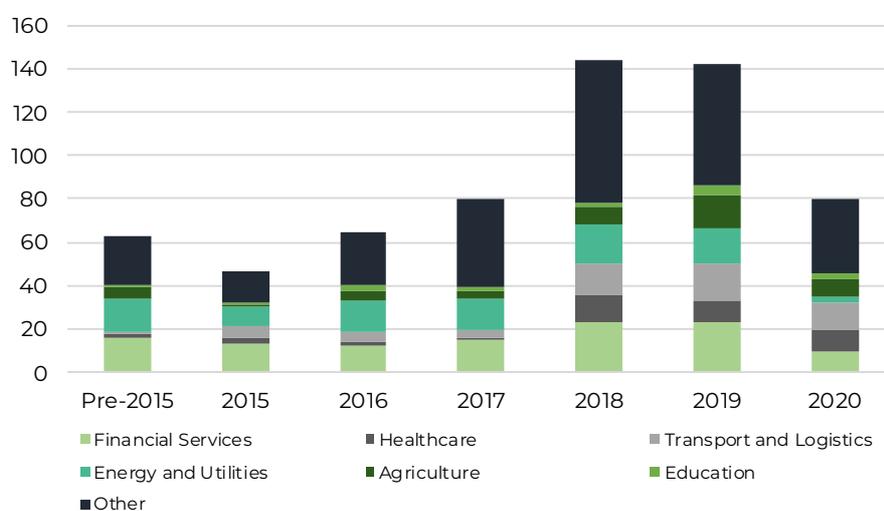
There has been a notable change in the sectors securing funding. It is unclear as to whether this reflects a fundamental shift or whether investors are perhaps reconsidering previous pipeline opportunities in-light of the current market dynamics. However, the changes in some sectors have been profound. African FinTech companies for example closed 18.7% of total deals in 2019, an increase from 17.8% in 2018. This has fallen slightly, with FinTech companies securing 17.2% of the total number of deals in 2020.

In terms of the amount of funding secured, the change seems more pronounced. In 2018, FinTech companies across Africa secured a total of \$365.20 million USD in funding (27.4% of total invested), this reached \$737.6 million USD (32.3% of total amount invested) in 2019. However, investment into FinTech companies in 2020 has so far reached \$177.0 million USD (26.3% of the total amount invested).

In East Africa, FinTech investment secured 16.0% of deals in 2018 and 16.2% of deals in 2019. East African FinTech companies secured \$194.7 million USD in 2018 (32.3% of total invested), and \$383.7 million USD in 2019 (43.0% of total invested) (figure 5). In 2020, there have been a total of 10 FinTech deals closed in East Africa, securing \$10.4 million USD of the total amount invested (9.5% of total invested).

Conversely, transport and logistics companies, and healthcare companies have seen a proportional gain in the number of deals closed. East African mobility companies closed proportionally more deals in H1 2020 compared to 2019 (increasing from 12.0% in 2019 to 15.0% in H1 2020). East African mobility companies have also increased the proportion of funding; in 2019 they secured a total of \$38.1 million USD (4.3% of the total amount invested) and funding has already totalled \$34.9 million USD across the Q1 and Q2 2020 (31.8% of the total amount invested).

Figure 5: Total Number of deals across East Africa broken down by sector since 2015

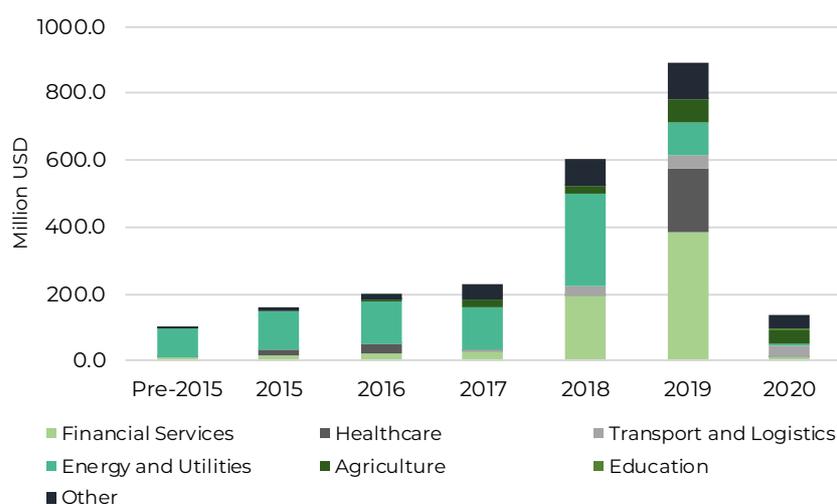


Source: Baobab Insights, 2020 (* 2020 Year to date as of 30th June 2020)



Across African HealthTech, the total invested in 2019 reached \$214.2 million USD (9.4% of the total amount invested), and has so far secured \$90.9 million USD in Q1 and Q2 2020 (13.5% of total amount invested). While the proportion of East African HealthTech deals has increased between 2019 and H1 2020 (increasing from 7.0% to 12.5% of total deals), the proportion of funding did not follow the trend seen across Africa and has so far decreased from 21.5% in 2019 to 1.0% of total funding in H1 2020.

Figure 6: Total amount invested across East Africa broken down by sector since 2015



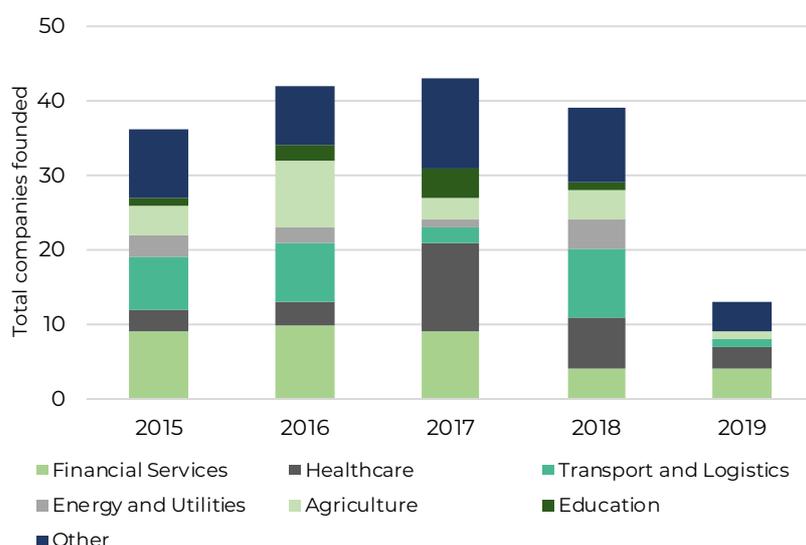
Source: Baobab Insights, 2020 (* 2020 Year to date as of 30th June 2020)

While this change in focus may well indicate that some investors may well, temporarily at least, favour companies that have a greater focus on specific challenges relating to the coronavirus pandemic (such as last-mile delivery services and telemedicine), it is worth noting that a number of external factors may be influencing investor appetite.

In Q1 and Q2 2020 for example, multinational payments company Visa announced strategic partnerships with M-Pesa and, Nigerian payments provider Paga. FSD Kenya, a financial services company, reported in their FinAccess 2019 report that financial inclusion has reached an estimated 83% thanks to products like M-Pesa. Perhaps as markets continue to mature, particularly in the payments and personal banking investors are more wary investing in early stage FinTech companies.



Figure 7: Number of East African technology companies founded by sector since 2015



Source: Baobab Insights, 2020

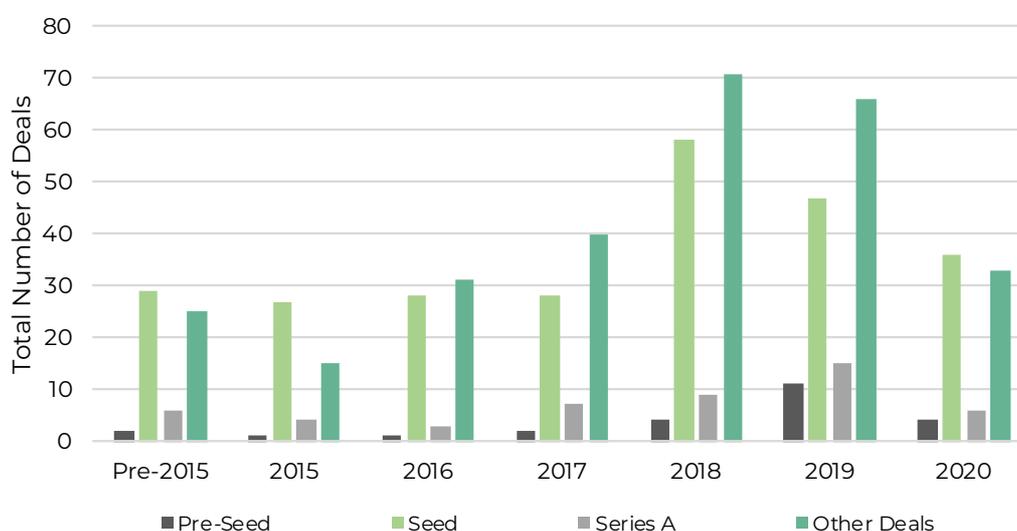
It is also worth noting that there have been far fewer FinTech companies being founded, with many founders focusing on creating solutions within the mobility and healthcare sectors. In 2017 for instance, FinTech companies made up 20% of companies founded, a reduction from 2016 in which they represented 23% of companies founded. Healthcare companies represented only 7% of companies founded in 2016, growing to 27% in 2017 and 17% in 2018 (figure 7).

One of the few surprises throughout the Q1 and Q2 is the reduction in the number of pre-seed stage investments. Given that many of these investments rely on in-person meetings, often as an outcome of an event or demo-day, means that lockdown restrictions hampered the methods by which capital is usually deployed. In 2019 there were a total of 61 pre-seed investments, there were only 19 throughout Q1 and Q2 of 2020. In East Africa, there were 11 pre-seed investments in 2019, and 4 pre-seed investments in 2020 (figure 8).

What is perhaps more surprising is the proportional increase in the number of seed stage deals in East Africa. In Q1 and Q2 2020 there were 36 seed stage deals, compared with 47 across the whole of 2019.



Figure 8: Number of deals by investment range into East African technology companies



Source: Baobab Insights, 2020

It is also interesting to note, that the proportion of deals totalling \$200,000 USD and below also increased in Q1 and Q2 2020 when compared with previous years. In 2018, the median number of rounds per quarter totalling \$200,000 USD or below equalled 39.5, representing 47% of all disclosed rounds across Africa (figure 9). In East Africa there were approximately 11.5 rounds per quarter totalling \$200,000 USD and below (representing approximately 40% of all disclosed rounds) (figure 10).

In 2020, the number of rounds per quarter totalling \$200,000 USD and below increases to a median value of 75.5 (63.4% of all disclosed rounds) across all African Technology companies. In Q1 and Q2 2020, East African technology companies secured a median number of 19.5 rounds per quarter totalling \$200,000 USD or below (64.0% of all disclosed rounds) (figure 10).

At both a pan-African and regional level, the jump in the number of rounds totalling \$200,000 and below seems to be somewhat isolated to Q1 and Q2 2020 rather than a more general upward trend. This can perhaps be explained by a number of factors. It is likely that many investors may well be looking to help existing portfolio companies to raise to help ensure that founders are able to navigate any upcoming operational uncertainty. Likewise, it is also likely that some investors may well be re-looking at companies that may have marginally missed out on investment, given that fundamental shifts in customer and market behaviours may help improve their business case in the immediate future.

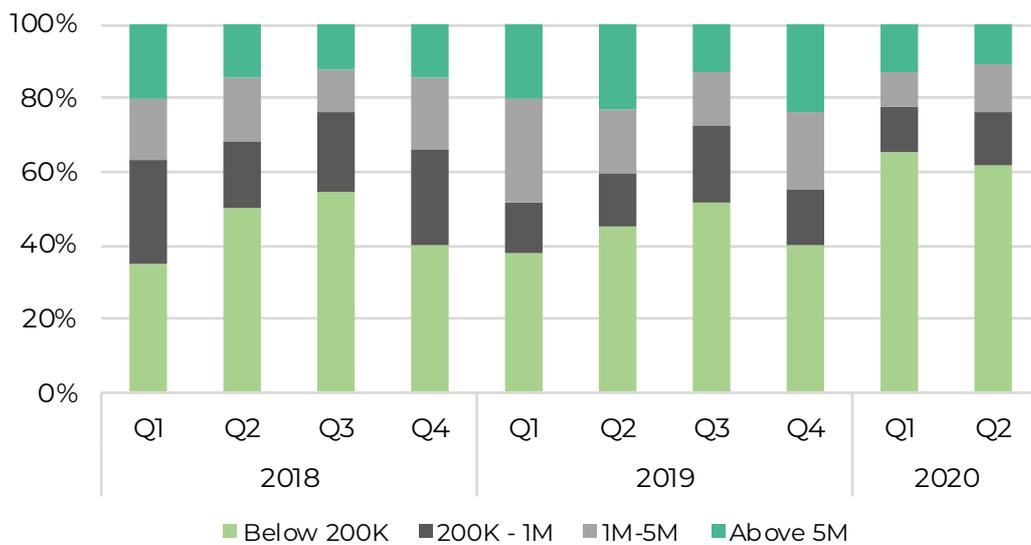
What perhaps represents more of a long term-trend is the reduction in the amount of companies securing ticket sizes between \$200,000 - \$1.0 million USD. In East Africa rounds totalling \$200,000 - \$1.0 million USD reduced from 23% in



2018 to 15% in 2019, they represented 13% of total disclosed funding rounds in 2020 (figure 11).

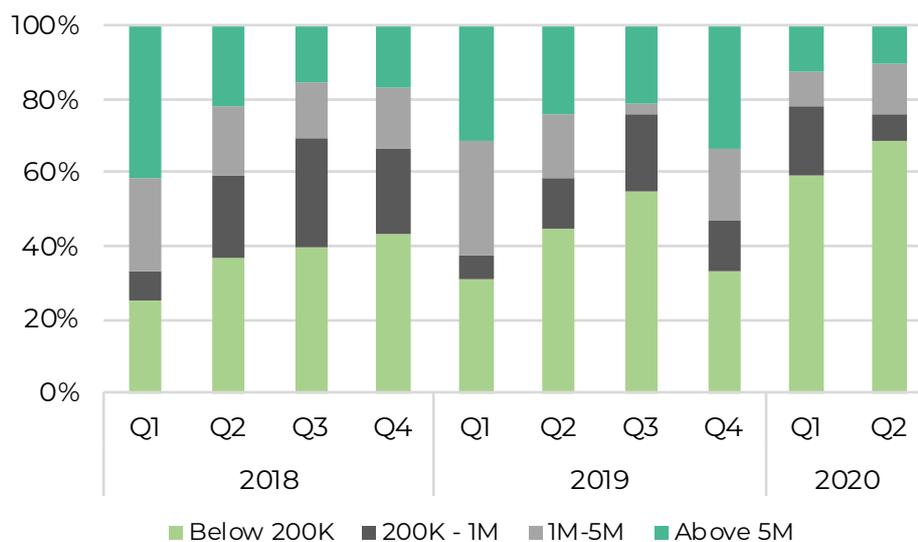
The proportion of rounds totalling \$1-\$5 million USD increased 17.5% to 18.2% of total deals between 2018 and 2019, however they only represented 11.4% of total deals in 2020.

Figure 9: Median rounds per quarter by investment range (USD) secured by African Technology companies



Source: Baobab Insights, 2020

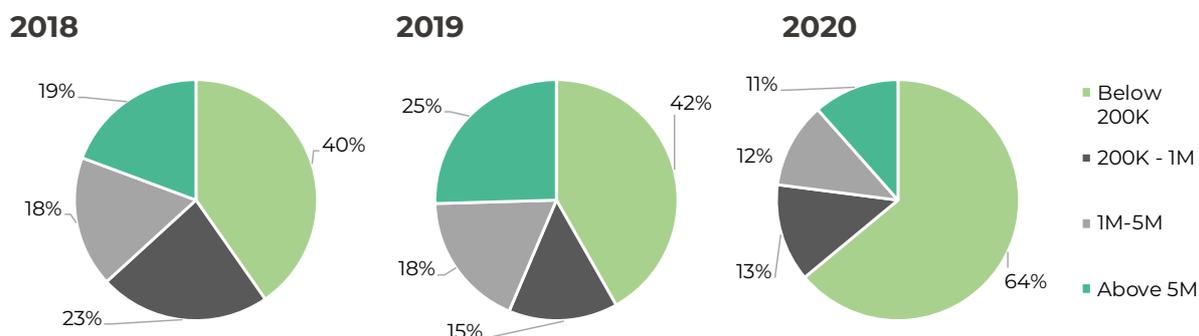
Figure 10: Median rounds per quarter (USD) by investment range secured by East African Technology companies



Source: Baobab Insights, 2020



Figure 11: Proportion of investment range (USD) secured by East African Technology companies 2018 – 2020 (YTD)



Source: Baobab Insights, 2020

How long is short-term?

At this stage, it would appear that the expected down-turn was perhaps not as catastrophic as was first predicted. However, there is clearly still some uncertainty within particular markets (such as financial services) which is causing investors to shift their focus onto earlier stage, and smaller sized investments.

The good news for founders is that capital is still being deployed, and that the number of rounds per quarter seems to be following the same trend as previous years. However, if European and US markets are anything to go by, the likelihood of a full easing of restrictions seems unlikely in the short-term.

What this means for founders could be extremely important; the preference for smaller and frequent raises may not work for all founders especially those looking to scale. There have also been a number of announcements made recently (such as that made by B2B logistics company Twiga Foods in August 2020), in which founders are temporarily shelving plans for international expansion, favouring greater focus on domestic markets. For how long, remains to be seen.



Selected Raises

*Nature's Touch
heaven in a jar!*

Nature's Touch is a direct-to-consumer (D2C) e-commerce platform that specialises in locally produced beauty and wellness products.

Last Funding Amount: \$0.010 million USD (June 2020)

Last Funding Round: Seed

Selected Recent Investors: iBizAfrica (Strathmore University), Standard Chartered Bank

Total Raised to date: \$0.010 million USD



PayGo Energy offer pay-as-you-go cooking gas, gas metering and smart delivery solutions for LPG providers in Kenya.

Last Funding Amount: Undisclosed (June 2020)

Last Funding Round: Series A

Selected Recent Investors: Kepple Africa Ventures

Total Raised to date: \$4.9 million USD



Lipa Later is a credit and lending service based in Kenya that enables shoppers to purchase and pay for goods on credit in stores across Kenya.

Last Funding Amount: Undisclosed (June 2020)

Last Funding Round: Venture round

Selected Recent Investors: Standard Bank, Founders Factory Africa, Platform Capital

Total Raised to date: \$0.040 million USD



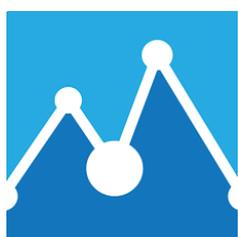
Wazi is a HealthTech based in Kenya that provides and anonymised digital counselling and mental health support and telemedicine services to East Africa.

Last Funding Amount: \$0.1 million USD (May 2020)

Last Funding Round: Seed

Selected Recent Investors: Kepple Africa Ventures

Total Raised to date: \$0.1 million USD



MarketForce is a SaaS platform developed by Mesozi inc that provides data and analytics to help optimise supply chains, bridging the information gap in last mile distribution.

Last Funding Amount: \$0.35 million USD (May 2020)

Last Funding Round: Seed

Selected Recent Investors: Viktoria Ventures (VBAN)

Total Raised to date: \$0.5 million USD



Zembo is a Ugandan Transport and Logistics company that provides solar-powered motorcycle taxis.

Last Funding Amount: \$0.01 million USD (May 2020)

Last Funding Round: Grant

Selected Recent Investors: Graham Sustainability Research Institute

Total Raised to date: \$1.510 million USD



Eversend is a multi-currency e-wallet that allows users to exchange, spend and send money. Developed in France, with operations in Kenya and Uganda, the neo-bank supports insurance purchase, card transactions and remittance payments.

Last Funding Amount: \$1.015 million USD (May 2020)

Last Funding Round: Equity Crowdfunding

Selected Recent Investors: Undisclosed (Seedrs)

Total Raised to date: \$1.271 million USD



Apollo Agriculture uses agronomic data and machine learning to provide improved credit scoring, lending and extensions services to small-holder farmers.

Last Funding Amount: \$6.0 million USD (May 2020)

Last Funding Round: Series A

Selected Recent Investors: Anthemis Group, Leaps by Bayer, Flourish Venture, Accion Venture Lab

Total Raised to date: \$7.6 million USD



ClinicPesa provides access to healthcare financing through a digital micro-loans and savings platform.

Last Funding Amount: \$0.05 million USD (May 2020)

Last Funding Round: Seed

Selected Recent Investors: Villgro Kenya

Total Raised to date: \$0.07 million USD



InsectiPro are an agricultural BioTech company that create alternative protein sources and agricultural inputs from insects.

Last Funding Amount: \$0.025 million USD (May 2020)

Last Funding Round: Angel Investment

Selected Recent Investors: Undisclosed

Total Raised to date: \$0.025 million USD



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