DEVELOPMENT PARTNERS INTERNATIONAL: LEVERAGING AFRICA'S EXPLOSIVE GROWTH TO GENERATE OUTSIZED RETURNS

By the National Association of Investment Companies

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In 2007, Runa Alam was already an experienced Pan-African investor, having overseen very successful funds focused on the continent as CEO of Kingdom Zephyr Asset Management. But she, and Miles Morland – Co-founder of DPI and an investor in Africa since 1990 – felt there was room in the market for a best-in-class private equity manager to focus on African companies that stand to benefit from the fast-growing middle class. Some 12 years later she is one of the very few women of color overseeing over $1 billion in assets.

As Co-Founding Partner and CEO of London-based Development Partners International LLP (DPI), Alam oversees one of the largest Pan-African private equity firms, managing $1.5 billion across three funds and a portfolio of more than 20 companies in 29 countries. DPI is also a very diverse firm, which is something Alam, an American of South Asian descent, envisioned as a core principle prior to launching. "About 7% of senior people in private equity globally are women. We are 50-50 at the partner level and all the way through. The overall firm is close to half women as well," she points out. Today, Alam has more than 20 years of experience investing in private equity in Africa.

So why focus on Africa? "It has high growth and strong demographics, which means large populations that are entering the middle class," explains Alam. This growing middle class creates a host of investment opportunities as a greater portion of the population can afford things like processed foods, quick service restaurants, pharmaceuticals, automotive, insurance, and banks for starters. For geographic investment diversity, Africa is more decoupled from the US (and therefore resistant to American economic cycles), when compared with emerging markets in Asia, and is less about exporting to the West in favor of intra-Africa trade and investment.

According to World Bank estimates, there will be more young people landing their first job by 2035 in Africa than the rest of the world combined, and that increased consumption will drive economic growth in those countries. The continent is also experiencing growing urbanization as more people move from rural agricultural-based regions to cities, further contributing to middle-class growth. As most economic activity in Africa is concentrated around one or two major cities, creating large companies is possible without strong infrastructure throughout. The major cities have sufficient and reliable roads, ports, airports, and other such infrastructure.

One of DPI's investments that underscores its strategy is BioPharm SPA, a leading Algerian manufacturer and distributor of generic pharmaceuticals with sales exceeding $550 million. The asset has grown 10% to 20% a year, according to Alam, and is the only pharma company in Algeria to have met the GMP standards to export to Europe. "BioPharm is a typical example of what we do because we like growth companies where we roll up our sleeves and work with them to make them not only grow on the top line but also work on operating inefficiencies. So, our EBITDA and bottom-line growth are typically larger than even our top-line growth."

'LEAPFROGGING' TECHNOLOGY

One of DPI's first deals turned into a home run thanks to leapfrogging in technology. A dearth of telephone landlines – particularly in places like Nigeria in the early 2000s when the nation had only 140 landlines for 180 million people – created a huge opportunity for cellular services in the continent. This led to a leapfrogging of the analog communications tech as cellular services became the more viable option, bypassing the need to install thousands of miles of copper lines.

Having anticipated increased future demand for the sharing telecommunication towers infrastructure by mobile telecommunication operators across Africa, DPI acquired a stake in Eaton Towers Holdings Limited, a builder of cellular towers, in several tranches beginning in 2008.

In 2009, the financial crisis in the US and Europe hit Africa, depressing the trading prices of cellular-related stocks. Bank leverage dried up and the cellular companies that owned the towers went from taking 3-6 months to pay their vendors (including those who constructed their towers) to 12-18 months. "We had to do a turnaround for the company. We merged it with another company where we got management that could acquire and operate towers," recalls Alam. The next step was to grow the network, leveraging the expertise DPI and Eaton's other investors have in this space.

Over the years, DPI worked closely with Eaton Towers' management and restructured operations, raised capital and grew the business lines until the company transitioned from a builder of cellular towers to an owner/operator of more than 5,500 towers across Ghana, Uganda, Kenya, Burkina Faso, and Niger. "We had to change management, we had to change the thesis, we had to develop technical expertise within the company," recalls Alam.

In May 2019, DPI and its partners identified a lucrative exit and sold its stake in Eaton Towers to publicly traded American Tower Corp. in a deal with an enterprise valuation of approximately $1.85 billion. This exit is the largest for African private equity in 2019 and one of the largest ever.

Looking ahead, Alam and the DPI team will continue to identify strategic investments in the continent that plays into their thesis of the emerging middle class. "The opportunity in Africa changes with each fund cycle," Alam explains. "For us, it doesn't matter if the opportunity is in North Africa, East Africa or a specific country. We identify solid, high-growth opportunities."