

METIER PRIVATE EQUITY



Marc Immerman
Director

Metier has a track record of outstanding performance in African private equity having concluded over 95 deals and achieving more than 30% annual internal rate of return, over the past three decades. The firm is a pioneering fund manager, making investments in renewable energy, water, waste and energy efficiency, having successfully closed two sustainability focused funds in 2013 and 2019.

AVCA talks with Marc Immerman, Director, Metier Private Equity on the firm's origins, its fundraising lessons and emerging sectors in Africa's private equity industry.

Q: Could you tell us a little about the history of Metier?

Metier is an independently owned private equity fund manager founded by Thierry Dalais, Paul Botha and Anthony Hewat with an extensive track record spanning ten investment pools. We focus our investments in two primary activities: mid-market growth capital and renewable energy/clean infrastructure.

After the successful development of a US\$500mn concentrated solar power plant in 2010 and the close of our first Sustainable Capital Fund in 2013, we began securing and consummating pioneering investments in Africa's renewable energy, water, waste and energy efficiency sectors attracting investor (LPs) commitments from pension funds and DFIs, to meet Africa's sustainability targets.

Our capital growth funds focus on mid-market, buy-and-build growth capital investments; partnering with entrepreneurs for the expansion and growth of their businesses, and investing behind internally developed investment platforms.

Q: Metier has successfully finalised over 95 private equity deals over the last 30 years, how has the industry evolved since it was formed and what crucial factors are needed to succeed in Africa?

Rightfully, there is more regulatory and compliance oversight by regulators, as the industry has got to scale. There is a heightened focus on environmental, social and governance aspects (ESG), which we have always applied as good for business and a driver of more successful realisations. The role of DFIs as pioneering investors in Africa has meant that our

NAME OF PROFESSIONAL SERVICES FIRM

Metier Private Equity

FIRM TYPE

General Partner

PROFESSIONALS FOCUSED ON AFRICA

26

market is ahead of the curve on ESG matters, as this was not a common feature in other markets a few years back.

Ultimately, success in private equity revolves around making good investments. The operating environment across Africa often necessitates that GPs are nimble and agile, moving beyond traditional growth levers to lead successful realisations.

Platform building or buy-and-build is a particularly effective strategy that we have undertaken. It involves consolidating businesses within an industry to increase the companies' combined value. The goal is to foster further organic growth and scale benefits - such as volume rates on business services and raw materials, pooling working capital resources and sharing distribution channels, and create new market contenders or niche leaders which attract strategic buyers.

Q: Could you elaborate on your investment approach?

For our Sustainable Capital funds, this centres around

leveraging our project development expertise, having been the lead developer of a 50MW concentrated solar power (CSP) project and led the late stage development of a run of river hydro power project. These capabilities uniquely differentiate us, along with our experience in defining the critical local community development programmes around our projects. Our growth capital funds centre around platform build ups and industry consolidations driven off infrastructure spending multiplier effects, technological change and innovation driven efficiency across value chains focused on growth capital and value addition.

Q: How has Metier integrated ESG practises into its investment process?

We integrate these practices into the end to end life cycle of our deals, with the deal team ultimately responsible for ESG outcomes, management and reporting, supported by a full-time ESG manager. Our portfolio companies each have a Board subcommittee, usually chaired by one of our deal team members, to monitor, implement and drive ESG actions plans and value-adding initiatives.

Q: Metier Sustainable Capital Fund II successfully reached a first close of US\$113mn in December 2019. Could you talk us through the capital raising process and your plans for the fund?

Currently, our potential investors are in different stages of their due diligence process. Regardless, we aim to reach our fund target of US\$150mn by the end of this year.

COVID-19 has meant a slowdown in LP activity, as they assessed their capital requirements and allocations. However, given our track record of providing significant co-investment to LPs and the mandate of this fund, which will deliver social and environmental benefits as well as returns on financial capital, we are confident of securing more commitments.

Additionally, the fund targets water and waste efficiency sectors, which we anticipate will benefit from pent up demand and acute shortages.

Q: Can you tell us some key things you have learnt from fundraising for Fund I which will be advantageous for Fund II?

When we raised Fund I, the renewable energy market was perceived as a concessional funding and impact only domain. Now for the first time in history, the lowest cost and lowest emission energy solutions are aligned. Against this background we hope to catalyse with Fund II's differentiated and tailored strategy for the current status and opportunities prevalent across African .

This new strategy, along with the good returns from Fund I's realisations, has enabled us to attract several new LPs.

Q:What is your secret sauce when it comes to creating value?

The secret sauce comprises of a successful energy development track record, the growth equity track record of Metier coupled with a differentiated fund strategy. The sector focus of Sustainable Capital Fund II is more specialised than most general infrastructure funds, and includes the water and waste sectors and derivatives thereof such as biogas and biomass.

Metier's strategy of aligned entrepreneur partnering positions the growth equity and sustainable capital teams as partners of choice.

Q:Mobilising local capital is a long-standing challenge in Africa's PE ecosystem. What advice would you give to encourage the participation of local limited partners?

Through data collection from asset consultants, AVCA and other private equity associations, it is easier to benchmark GPs and performance - enabling LPs to make better decisions based on returns.

The economic contribution of private equity is also well studied on the continent, and the industry should not be judged by the few headlines grabbing deals; instead, LPs should consider:

- a) The exposure it allows to sectors that are not available by listed equity;
- b) The significant alignment that can be achieved between GP, entrepreneurs and LP's;
- c) The catalytic role the DFIs have played in African private equity that has instilled robust standards around governance, ESG, LP rights etc;
- d) Given the maturity of the industry, there are now various entry points into the African private equity market that successfully address perceived concerns around vintage year fluctuations, lack of diversification in GP strategies and limited co-investment opportunities.

Q:What is your outlook for the resource efficiency industry, and where do you think the opportunities are?

We see opportunities in resource efficiency as well as captive power and grid-tied renewable energy.

If you consider a wastewater treatment project that extracts organic waste to generate additional value

streams such as gas and energy. In most of these cases, the host does not want to own the projects, or it does not make sense that they do commercially due to the need to secure additional feedstock. For example, we are working on a live opportunity with a listed alcohol brewer that needs to reduce its organic waste from their portfolio of organic manufacturing plants. The opportunity to apply a project finance structure and strategy to the ownership of these projects presents a less competitive selection process given the limited relevant local experience due to the integration of the more complicated technologies and therefore ultimately offering a higher return. We have a portfolio partner in this sector that we are restructuring into a development company with our partner to focus exclusively on this sector.

We regard captive renewable energy as the more relevant solution for the critical shortage of energy in Africa due to the grid limitations and bankability of sovereign offtakers. The sector currently is growing but is small and disjointed. This infers that the large infrastructure funds and trade buyers may find it difficult to secure opportunities of scale leading to an attractive platform opportunity.

Further these investments require both energy and growth equity experience. Given the extensive track record of the Metier growth equity team coupled with that of the energy track record of the Sustainable Capital team this positions MSC II to better understand, structure, add value to and ultimately exit these entities.

MSC II will aim secure, grow and consolidate these opportunities which are highly attractive to large IPP's once scale has been achieved, and can be exited from.

Lastly, we see grid-tied projects remaining relevant provided they offer strategic value to governments such as grid strengthening or the displacement of more expensive energy. In contrast, the larger scale grid-tied project procurements suffer from low returns and extensive gestation periods. Given the incremental value to the customer once secured the projects can generate higher than market returns (c. 16% US\$ IRR) which can be further uplifted on exit to achieve the targeted 20% IRR of the fund.

Q: Where do you see Metier in five years' time?

Our desire is to further develop the firm to entrench itself as a pan African fund manager targeting our niche sectors.

Q: How have you benefited from the AVCA membership?

AVCA provides our team with access to forums that enable us to engage with market peers and benchmarking data and industry learnings are key to

our investment activities.

Want to learn more about Metier Private Equity?
[Click here](#) to explore AVCA's 2020 Member Directory.

CONTACT AVCA

37 North Row
3rd Floor
London W1K 6DH

E avca@avca-africa.org
W www.avca-africa.org
T +44 (0)20 3874 7008

 African Private Equity and
Venture Capital Association