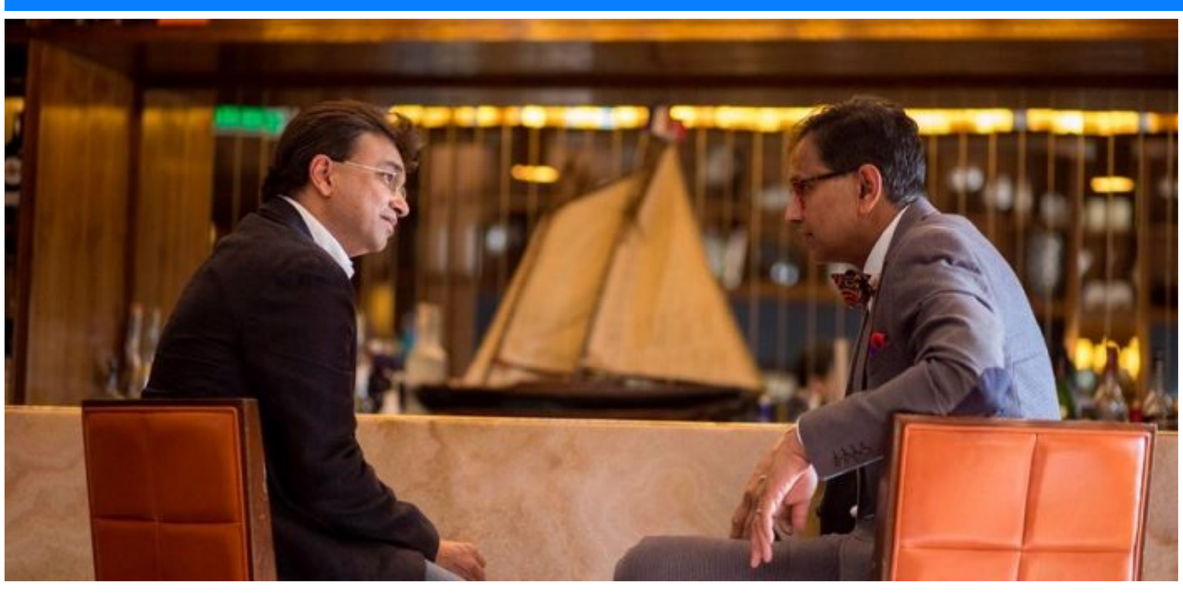

"Don't call angels fools" – the trailblazing pair quietly building an asset class in Africa

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BY TOM JACKSON ON JUNE 3, 2021

Kick off a Zoom meeting with Vishal Agarwal and Raj Kulasingam, and you might find it hard to believe the pair are playing a leading role in funding early-stage tech businesses in Africa, not least as they – and this reporter – fruitlessly try to figure out how to record the call.

In the end, I found a pen. But temporary lack of tech-savviness aside, Agarwal, who was a senior figure at PwC in Kenya, GE in Africa, and now heads up investment management company Full Circle, and Kulasingam, senior counsel at international law firm Dentons in London, are extremely active angel investors on the continent, and know the importance of the work they are doing.

Though they invest their own money and via different vehicles, Agarwal through Full Circle and Kulasingam via SM River, the pair are often to be found on the same cap tables, and bring each other in on opportunities in the African tech space. Startups they have invested in recently include Smile Identity, OnePipe, FinAccess, Cassbana, Semoa, Lifestore Pharmacies and BlotOut, but at the time of speaking to them, the obvious company to talk about is Kuda.

A Nigerian digital banking startup, Kuda in March announced a US$25 million Series A funding round in order to help it fund its aggressive growth plan. What was less reported was that the round was actually worth US$37 million, with the additional US$12 million used to give early investors the opportunity to exit their investment via a secondary sale. Among those investors were Kulasingam and Agarwal, who in a consortium with Haresh Aswani and Alwin Magimay acted as lead investors in Kuda's US$1.6 million pre-seed round in 2019.

The company's growth over the last couple of years means they have received a double-digit multiple on their initial US$600,000 investment.

"When we came on board it was a low single digit enterprise value, and when we exited there were three digits. It was about 20 months, that journey. But to the credit of the startup and the founder, when we came on board they had 3,500 demo users and a sandbox licence, and when we exited they had more than 500,000 depositors," Agarwal said.

"So that 20-month journey with that kind of scale and fuel, there's a nice story there for an African startup scaling. It is not just Kuda's journey, it is an African startup demonstrating that it is scalable."

Babs Ogundeyi, Kuda founder and chief executive officer (CEO), said he was delighted to repay early investors with a significant material return on their investment, and particularly grateful for the foresight shown by Agarwal and Kulasingam.

"They have been incredible investors and have provided Kuda with so much value beyond money by leveraging their knowledge, reputations and networks to help Kuda scale and grow," he said.

"We would like to thank the consortium for their early participation and contribution towards Kuda's success."

And it is the significant contribution made by investors such as themselves and the increasing numbers of others that are backing early-stage businesses across Africa that the pair want to talk about most. Though multi-million dollar Series A rounds and bumper new VC funds naturally dominate the news cycle, it is angel investors on the continent that are laying the pivotal groundwork – both in terms of providing capital but also adding other types of value – for the growth of Africa's startup ecosystem.

"These US$50 million fund conversations, these great exits that people talk about, would not come without investors like us in the region supporting our local companies in our backyard and offering our network and grey hair, support and rolodex, and really taking a view on an asset class that is really quite nascent," said Agarwal.

Though international investors have their place, they are not so helpful when it comes to issues with an African central bank, for example. Between seed and Series A, on-the-ground investors add big value to a business.

"Everyone wants the great VC, the great Series A, but really how do you build a pyramid properly? How do you build a solid base at the bottom? And personally I think it is a good bunch of solid local investors or foreign investors who understand both international and local markets," said Kulasingam.

A Malaysian, he started advising on deals in Africa 20 years ago, around the same time he met Agarwal, and though based in London feels he has built up a degree of expertise with a solid network on the continent.

"I know my way around the continent, I've got a network on the continent. I don't pretend to be the most networked, but I've got a network. And what I've seen is that most companies that grow, first you've got to grow them locally. Getting an international VC to come in and add capital is fantastic, especially when you want to get from Series A to Series B. But how do you get from pre-seed, to seed, to Series A? That's the piece that we are playing in," Kulasingam said.

The pair use their own money, and put syndicates together for larger tickets, but the support they provide to their portfolio goes beyond finance.

"One of the important things for Raj and I across our portfolio is that we don't just invest and sit back, we are actively involved, networking, cross-pollinating our portfolio…" said Agarwal.

"We are continuing to look at startups where we can actually add value. As an angel, you can add value locally. You may not have any connections to the VC in New York, or London, or wherever, but they don't need that right now. They need you to make a phone call to Access Bank and say "dude, can you take my guy's half an hour meeting because he's got a fantastic API that he wants to give you". That's what they need," said Kulasingam.

There comes a point, however, when the level of support they are able to offer a startup that has reached, say, Kuda's stage, is no longer crucial. Agarwal says they have maturity and wisdom as investors, and know when to get out.

"We are not greedy investors, we all win if the founder is able to get new money in," he said.

Others may have made a different choice, says Kulasingam.

"We could have left money on the table and stayed in. Hopefully it is going to be a unicorn and we make our money. But partly we want to recycle our capital, and partly we also said "look, you dilute the founders less by selling off and moving on"," he said.

"If we exit it is the least pain to everybody else. And we are a pre-seed to A investor anyway, we seldom stay on beyond a B, because we don't add value beyond a B," said Agarwal.

There are notable differences between dealing with a founder at seed stage and post-Series A, says Kulasingam.

"At seed to Series A a founder will take a phone call, he'll call you back, he'll WhatsApp you. After Series A, hmmm, you might be lucky if he sends you a Christmas greeting," he said.

And that is OK, said Agarwal.

"Founders have to be forward looking. And Babs is no different, he is forward looking. But some day, at the start, the outset, they actually have starry eyes for people like us, and that's when we can add the most value. When those stars disappear because they are talking to the next big institutional investor who can talk about five or 12 unicorns in their portfolio, then that's a good time for all of us to exit," he said.

"That's where African angels get hurt the most. Because founders don't have control over their company anymore, there's so much dilution, they give different classes of shares to these institutional investors, who frankly speaking care a rat's arse about the first investor."

This gets us on to a major bugbear.

"I hate founders and institutional investors who have added a new F to the "friends and family". They've started calling it "friends, family and fools", and I think it is actually really disrespectful for founders, let alone institutional investors, to add the new F, because without whatever that F was there was actually no deal on the table. Some Silicon Valley guy might think of me and Raj as the F, we just don't want to be in the cap table when they do," said Agarwal.

Unfortunately, many angels don't understand when is the best time to exit an investment in much the same way, and lose out as a result.

"Most angels don't understand dilution. They may think they are in a Kuda, or a Flutterwave, or whatever it is, and that it is going to become a unicorn," said Kulasingam.

That may be, but firstly, the multiple of the startup's value is not an early investor's return on investment multiple, because of dilution, and secondly, a new investor has a higher preferential.

"You are getting pushed further and further down the line, so if the company doesn't do well you'll be left with zero," Kulasingam said.

Getting angels to understand dilution, and the way a VC works in terms of moving up the value chain, is important, and it is vital angels don't get burnt if they are to continue backing the nascent space. And Agarwal and Kulasingam believe they can play an important role here given their experience.

"It is hard enough to get angels to invest in African deals, but for them to not get taken advantage of is also really important. So how we structure our deals is particularly key," said Agarwal. "We meet founders who have written very expensive debt notes to local angels, so they are carrying loads of debt on their cap table, and we make them redo it. We are no activists, but as seasoned leaders we can make a difference from a local standpoint."

So what advice do they have for the growing number of individuals that are interested in getting involved in this growing asset class but lack the time to dive deep enough into the tech scene.

"You seek out a Raj and Vishal type lead," Agarwal said. "You look for people like us, you look at track record, and you build a relationship, and you work with us. We're not fund managers, we don't touch your money, we don't want fees. But if you are in our ecosystem or our network, and we invite you into a deal because we feel you could add a lot of value, or you deepen the asset class. If you are a match for the startup you are a match for us. And for you, it allows you to play with a smaller cheque size and get the exact same terms that we negotiated."

Playing this part benefits the whole ecosystem, he said.

"Nobody did that for us, and that is why we have some poorer transactions in the earlier stages of our career. That was our tuition, and we are happy to share the rewards of our tuition with others. Not because we are philanthropists, but because it deepens the asset class a little more," said Agarwal.

So experienced investors can provide help to less experienced investors, but the real impact comes on the businesses they are investing in.

"When you get Raj on a cap table or on an advisory board, you're getting his 27, 28 years of experience, his network, his rolodex, his intellect, and more," Agarwal said.

"So it is not just a young GP from Africa who says "give me allocation, I'm going to give you my GP name". Having seasoned leaders like us in your cap table is valuable."

It certainly proved to be the case for Kuda, and the successful exit of the pair from the Nigerian startup has provided a further boost to the ecosystem as they recycle their capital. Since exiting Kuda, they have did eight new deals in the first quarter of 2021.

"That Kuda churn is of value," Agarwal said. "We are not spraying and praying, we are actively involved with our founders."

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Passionate about the vibrant tech startups scene in Africa, Tom can usually be found sniffing out the continent's most exciting new companies and entrepreneurs, funding rounds and any other developments within the growing ecosystem.

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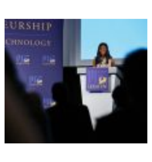
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