



CASE STUDY

OLDMUTUAL

ALTERNATIVE INVESTMENTS HYBRID EQUITY

JUNE 2023

THE COMPANY



Company	Thebe Investment Corporation (Thebe)
Country	South Africa
Sector	Finance
Investor	Hybrid Equity a division of Old Mutual Alternative Investments (OMAI)
Investment	R235 million

IMPACT HIGHLIGHTS

- Thebe moved from being a 60%+ Black-owned business, to a 90%+ Black-owned business.
- The deal unlocked many jobs in the private equity sector, reducing South Africa's unemployment rate.

In this case study we discuss the role that the Hybrid Equity team played in facilitating transformation in the telecoms sector by funding the THEBE & VODACOM BEE transaction in 2015 and helping Thebe to increase its black ownership from 60% to 90%.

Thebe Investment Corporation (Thebe), a leading black owned investment company required funding to conclude a BEE transaction in a leading telecommunications company, Vodacom.

The Hybrid Equity team is a specialist equity structuring capability, with a deep knowledge and track record in

preference share and impact mezzanine debt funding. Their expertise has helped several established companies to grow; acquire new businesses; and achieve their Black Economic Empowerment objectives, making them a well-suited partner to work along Thebe in arranging the funding for the BEE transaction with Vodacom.

THE ROLE PLAYED BY THE HYBRID EQUITY TEAM

The Hybrid Equity team invested in Thebe in 2015; the result of a relationship built over four years with Thebe's management team, which is highly regarded in the market. The investment formed part of the Hybrid Equity team's long-term strategy to support strategic Black Economic Empowerment (BEE) investment holding companies.

The R235 million investment provided funding for Thebe to invest in leading mobile communications company, Vodacom, whose majority shareholder is Vodafone Group.

Even though the funding solution was carried out in a ring-fenced special purpose vehicle (SPV), holding the Vodacom investment as security, the Hybrid Equity team was able to de-risk the transaction through implementing a structure that allowed for a for any amount not recovered from the investment to be guaranteed by the Thebe balance sheet. The deal was structured with a funding preference share yielding prime + 3% and a B

preference share in the capital value of the Vodacom investment. The B preference share was explicitly structured to be based on the net asset value of the investment, rather than any increase in capital value - this was done to lock in a more predictable return profile on the B preference share compared to normal capital. Furthermore, by implementing a cap and collar funding arrangement enabled the Hybrid Equity team to lock in the minimum downside return, thereby creating a predictable return while motivating the Thebe management team to continue driving value by limiting the upside participation they would need to pay if value grew significantly.

In May 2018, the Hybrid Equity team felt that the value in the transaction



THE COMPANY VIEW

"Hybrid Equity, a division of OMAI was key to enabling us to refinance our investment portfolio into the telecommunications space. The expertise and knowledge of the team allowed us to restructure an attractive investment opportunity at a truly opportune time. There was a real sense of vigour from both Thebe and the OMAI that the investment would also help propel Africa's digital transformation."

- Rapulane Mabelane, Chief Investment Officer, Thebe Investment Corporation



has been maximised so made the decision to exit the investment. A few months later, Vodacom's share price fell to 75% of the price at exit, affirming the team's investment view on the underlying value.

Since working with Thebe in 2015 and empowering its highly capable management team to become owners, Thebe's net assets have almost doubled. Today, Thebe remains a leading BEE investment holding company that is a significant participant in the market with its size.

THEBE INVESTMENT CORPORATION'S STORY

Founded in 1992 by Former President Nelson Mandela, Beyers Naude, Walter Sisulu, Dr Enos Mabuza and Vusi Khanyile, Thebe is a Black-owned socially embedded investment company which is committed to driving transformation while building communities.

Thebe was established with an initial capital investment of R100,000. The company is owned equally by Batho Batho Trust and Management (50:50). Headquartered in Sandton, Gauteng, Thebe has over 20 direct and over 20 000 indirect employees, though its majority owned investee companies. Its investment portfolio is made up of energy assets and services, business services, food & agro- processing, telecommunications and infrastructure. Renewables also make up a significant portion of its portfolio. Thebe vision, to invest in Renewables from the beginning of the programme, turned out to be very successful for the business and aided the business growth in asset value.

A FORCE FOR GOOD

The Hybrid Equity team's acquisition contributed positively to SA's employment rate. It also accelerated transformation in corporate SA through the business' diverse employee base as well as developing marginalised communities in SA as it helped Thebe move from being a 60%+ Black-owned business to a 90%+ Black-owned business. This enabled Thebe to access numerous other BEE deals due to its increased ownership status, including, a significant renewable energy assets portfolio. As a result of this increased deal making, Thebe helped to drive job creation and majority-Black board representation across the portfolio businesses that it remains invested in.

By increasing the value of the business, the Hybrid Equity team was indirectly involved in the success of the Thebe Foundation the main CSI initiative of Thebe. The Foundation works with various partners in the private and public sector to transform the lives of people in the community. Its Language and Numeracy Programme supports 17,054 learners, 16 schools and 294 teachers in the Nkangala and Gert Sibande Districts. Through its Dr E J Mabuza Scholarship Fund, it has invested R5.5 million to help students from poor families attend university. And through its Small Business Enrichment Programme, it has helped more than 200 companies with business advice, training and funding. The Foundation's overarching aim is to empower communities to take ownership of their own development.

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