



Figure 20: Evolution of Holding Period in Africa vs Southern Africa by Year of Exit, 2012 – 2023



Source: AVCA

3.6 Investment and Exit Case Studies

INVESTMENT CASE STUDY: YELLOW

Investor Name: Convergence Partners

Fund Name: Convergence Partners Digital Infrastructure Fund (CPDIF)

Company Name: Yellow

Country (HQ): Mauritius

Countries Operations: Malawi, Rwanda, Uganda, Zambia, Madagascar

Sector: Fintech

Year of Initial Investment: 2023

Investment Size: US\$10mn

Investment Overview

Yellow is a specialized credit provider that enables consumers across five African markets to acquire small off-grid solar systems and smartphones. In 2023, CPDIF injected US\$10mn in growth capital to fuel Yellow's growth and enhance its geographic expansion.

This investment stands as a testament to Yellow's outstanding operational team and unique proprietary technology model, which have uniquely positioned the company to deliver its products to customers both profitably and sustainably—a notable achievement that sets Yellow apart from its competitors. Furthermore, this investment aligns closely with Convergence Partners' commitment to impactful investing. By providing affordable credit to marginalized communities and unbanked individuals, Yellow addresses three critical development challenges in Africa: enhancing access to power, broadening broadband connectivity, offering affordable credit. Importantly, Yellow's focus on renewable energy sources expands access to essential services without exacerbating the carbon footprint.

Overall, this represents a landmark investment for CPDIF, marking its foray into a new sector and introducing the fund to new African markets. Furthermore, the nature of this investment underscores further the evolving maturity and completeness of Africa's private capital industry, highlighting the transition from seed and venture capital financing to growth capital infusions by private equity investors.



Investment Rationale

The core thesis driving the investment in Yellow is that the company, through its innovative team and cutting-edge technology, can create a market where one never existed before. This strategy will not only provide users with access to previously unavailable products but also introduce novel payment solutions, positioning Yellow to capture a significant share of this burgeoning opportunity.

Moreover, as a high-impact investment, Yellow's products are set to revolutionize the lives of its customers by democratizing access to electricity and digital information. This aligns perfectly with CPDIF's focus on impact investing, highlighting the importance of supporting ventures that have a profound positive effect on society.

Key Highlights from Doing Business in Southern Africa

Opportunities

Yellow benefits from strong secular demand tailwinds in the countries where it operates. Southern Africa's challenges with infrastructure and diminishing electrification rates have boosted increased demand for off-grid solar systems. For Yellow, the region presents an opportunity for introducing these innovative solar solutions to consumers, offering a cost-effective and highly efficient alternative to other green energy alternatives.

Additionally, Yellow is capitalizing on the rapid growth of digital demand for smartphones in the region. By deepening its smartphone services, the company aims to tap into the burgeoning market driven by a surge in content creation and data consumption across Africa.

Challenges

In rural areas, where Yellow operates, inadequate infrastructure poses challenges for operations and logistics, necessitating efforts to enhance efficiency and ensure reliable, consistent, and on-time distribution.

From an investor standpoint, challenges associated with currency devaluation diminish dollar-denominated returns over time, placing a considerable focus on the identification and mitigation of foreign exchange risks.

Outlook

Looking ahead, Yellow is poised for substantial growth, primarily through deeper penetration into the markets where it already operates. Additionally, the company is well-positioned to expand its reach into other significant markets across the African continent. The anticipated introduction of innovative products, including new productive asset classes and cash advances on assets already paid off, is also expected to further drive the company's growth.

Finally, Yellow's ability to accumulate valuable long-tail data, coupled with its best-in-class algorithms for interpreting that data, establishes a formidable moat that is increasingly difficult to compete with.

