The Investor: DPI

Fund Adviser: Development Partners International (DPI)

Fund Name: African Development Partners I (ADP I), African Development Partners II (ADP II)

Fund Size: ~USD400 million (ADP I), USD725 million (ADP II)

Total AUM: USD1.7 billion

Development Partners International (DPI) is a pan-African private equity firm established in 2007. As of October 2020, DPI had invested in 22 portfolio companies across 29 countries through three private equity funds. DPI typically commits between USD40 million and USD120 million in equity per investment.

The Company: Eaton Towers Holdings Ltd.

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Website: www.americantower.com

Industry / Sector: Telecommunications

Location: Uganda, Ghana, Kenya, Burkina Faso, and Niger

Founded in 2008, London-headquartered Eaton Towers was an independent tower company that acquired, built, and managed shared telecommunications infrastructure across Africa. By leasing towers to multiple mobile operators, the company helped them reduce capital expenditures and operating costs. By the end of 2019, Eaton Towers owned 5,700 telecommunications sites.

Dates of Investment:	Amount:	Date of Exit:
December 2008, June 2015	**Undisclosed**	**December 2019**

Opportunity

Shortly after Development Partners International (DPI) was founded in 2007, the team recognized that telecommunication towers infrastructure sharing was likely to become a prominent trend across Africa. Businesses focused on tower sharing were already well established in Western markets and trading at high multiples. At the time, mobile telecommunications companies such as Celtel were expanding rapidly in Africa, with cellular networks leapfrogging fixed-line infrastructure across the region. DPI saw a market opportunity to build a towers company that could also catalyze greater economic development by supporting the growth of digital infrastructure and connectivity across Africa.

In December 2008, DPI invested in Q-Venture, a South African company that was building towers on behalf of mobile telecommunications operators in 13 Sub-Saharan African countries—marking DPI's debut fund's first investment. DPI's thesis was that Q-Venture would form the nucleus of a broader platform that would not only build towers but also own and manage them on behalf of operators, giving the firm an early mover advantage once tower sharing and outsourcing took off in the region.

> "While Eaton Towers' initial interest in renewable and hybrid energy solutions was largely driven by the high cost of diesel, it developed a robust sustainability culture that not only made the company more efficient, but also better able to sell its product. For example, as clients increasingly wanted to understand the carbon emissions in their supply chains, Eaton Towers was already well positioned to discuss this along with its overall environmental performance.
>
> – Michael Hall
> *Head of ESG and Impact, DPI*

Execution

The DPI team faced a number of challenges early in its investment. Q-Venture's business model had been negatively affected by a change of payment terms in the industry that resulted in tower construction companies receiving payments post construction. This resulted in an adverse working capital cycle for Q-Venture that significantly worsened the unit economics and attractiveness of the business. DPI and the Q-Venture management team needed to convert the distressed tower building business into a tower ownership company. Transformation began in 2010, when Q-Venture was awarded a contract in Ghana with Vodafone to take over the management of its portfolio and source additional tenants on those towers. DPI realized this pivot required different management skills and it led Q-Venture's acquisition of Eaton Telecom Infrastructure in late 2009 to gain an executive team with broad experience in owning and operating telecommunications networks across the continent. The merged entity was rebranded as Eaton Towers.

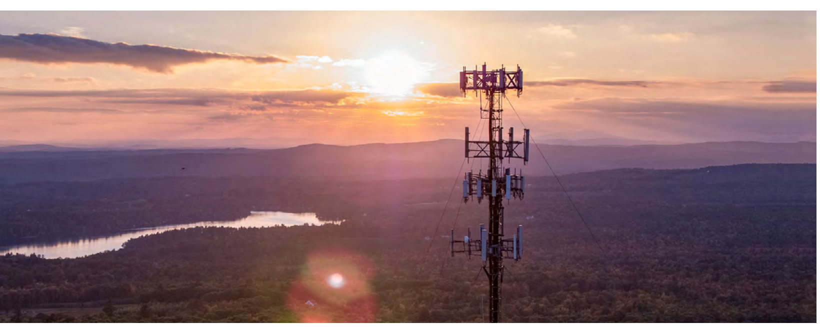
The towers ownership business required significant capital to acquire blocks of towers as the best opportunities arose. DPI's ADP I fund was already fully committed, so the private equity firm began a search for additional equity and debt investors. In 2011, Capital International Private Equity Fund (CIPEF) partnered to purchase portfolios of towers, committing USD150 million, followed by an additional USD198 million in 2013. In 2015, CIPEF, which had become the company's controlling shareholder, was joined by a consortium that included Ethos Private Equity and Standard Chartered Private Equity in a USD350 million financing round to further expand and diversify Eaton Towers' portfolio. This included purchasing over 3,000 towers from Airtel in Ghana, Uganda, Kenya, Niger, and Burkina Faso. DPI also participated, investing through its ADP II fund.

To ensure the towers were run efficiently post-acquisition, DPI worked to bring in a Chief Operating Officer who had previously worked for American Tower Corporation, a global owner and operator of wireless and broadcast communications infrastructure. Eaton Towers was able to increase margins through efficiency gains (including energy savings initiatives), additional colocations and an effective build-to-suit program, in which towers are built with contracts already in place to guarantee immediate revenue. This resulted in an EBITDA margin of approximately 58% as of December 2018—higher than those achieved by direct competitors.

Spotlight: Enabling Safety and Sustainability

DPI strived to ensure that Eaton Towers and its subcontractors—who carried out most of the company's work—implemented best-in-class environmental, health, and safety management practices. Safety was a particular focus for DPI as Eaton Towers had thousands of sites scattered across often remote environments. Most of these places were not on the grid so the company had to initially depend on diesel generators. With diesel being a valuable commodity in the region, fuel theft became a frequent problem and consequently put local staff, including the technicians and security guards, at risk. DPI worked closely with the Eaton Towers team and its subcontractors to put in place safety protocols in partnership with local authorities.

The costs and safety risks associated with diesel led Eaton Towers to focus on energy efficiency and finding cheaper alternatives. The company implemented hybrid solutions that could harness solar power in each country, which not only reduced its carbon footprint but lowered operating costs, particularly given that these systems required a less intensive maintenance schedule. Eaton Towers was the first ADP portfolio company to assess and have Scope 1 and 2 greenhouse gas emissions verified across the organization when the company became ISO 14064 greenhouse gas certified in 2018.



Outcome

By 2019, Eaton Towers had 5,700 towers across Ghana, Uganda, Kenya, Burkina Faso, and Niger, and was serving many of Africa's largest mobile operators including MTN, Airtel, Vodacom, Vodafone, and Orange. As DPI and other shareholders began to plan an exit together, they ran a dual-track process, preparing the company for a possible IPO while simultaneously negotiating with strategic investors. They had partially exited their holding in 2016 when American Tower purchased Eaton Towers' South African operations. Having already established a relationship, American Tower and Eaton Towers entered discussions regarding the remainder of the portfolio.

Eaton Towers' geographic diversification, which had been carefully structured by the shareholders and management team, was a key selling point. As transactions of this scale were largely unprecedented in the continent, the team spent a significant amount of time trying to understand the local regulatory requirements and tax laws related to a merger in each market. After approximately 18 months of a collaborative negotiation process, DPI and its private equity partners agreed to sell Eaton Towers to American Tower in December 2019, with an estimated enterprise value of USD1.85 billion—making it one of the largest private equity exits in Africa to date.