The Investor

VC VANTAGE CAPITAL

Founded in 2001, Vantage Capital is a fund manager focused on Africa's mid-market sector. Vantage's mezzanine division has raised three funds and made 31 investments in 11 countries since 2006 and is currently raising a fourth fund. The firm's mezzanine investments typically range from USD10 million to USD40 million with a tenor of four to six years.

FUND NAME
Vantage Mezzanine III Southern Africa Sub Fund Partnership

FUND SIZE
USD280 million

TOTAL AUM
USD835.5 million

The Company

VUMA

Vumatel is the largest fiber-to-the-home (FTTH) network provider in South Africa. Founded in 2014, Vumatel's open access fiber network is used by accredited internet service providers to supply broadband services to their own customers. Vumatel, which is owned by Community Investment Ventures Holdings, has approximately 600 employees and more than 31,000 kilometers of fiber assets that pass over 1.2 million homes as of November 2021.

WEBSITE
www.vumatel.co.za

INDUSTRY/SECTOR
Telecommunications

LOCATION
South Africa

DATE OF INITIAL INVESTMENT
APRIL 2016

AMOUNT
ZAR250 MILLION (~USD17 MILLION)

DATE OF EXIT
APRIL 2020

SOUTH AFRICA was one of the first countries on the continent to connect to the internet. However, by 2014, internet speeds remained slow and access in residential markets was limited. Users were largely reliant upon Telkom, the partially state-owned telecommunications company, which was sluggish in responding to market needs. Seasoned ICT professionals Richard Came, Johan Pretorius and Niel Schoeman saw an opportunity and founded Vumatel. By making their startup more agile and efficient than Telkom in deploying fiber directly to residences (known as fiber-to-the-home or FTTH), the company had the potential to significantly reduce the country's broadband services deficit.

Vumatel's founders had used their own capital to pilot an open access fiber-optic network in the Johannesburg neighborhood of Parkhurst in October 2014. By early 2016, the team had successfully deployed 600 kilometers of fiber in 14 Johannesburg suburbs and had approximately 4,000 subscribers. It needed additional capital to fund its ongoing rollout, with immediate plans to reach 110,000 homes in the suburbs of Johannesburg and Cape Town. Investec Equity Partners had previously provided the company with USD200 million in early-stage capital in exchange for a minority stake in 2015. Vumatel found itself in a tough position — it was still too young and unproven to secure bank debt yet bringing in an additional equity partner would further dilute the founders.

Vantage Capital's mezzanine division offered Vumatel a solution. Knowing that demand for high-speed internet was skyrocketing, Vantage invested in Vumatel in 2016, providing a loan of approximately USD17 million with a 7-year tenor and a minimum coupon of 13.5%. The deal also included an equity kicker that would provide Vantage with upside should Vumatel achieve certain goals. By the time Vantage exited its investment in April 2020, Vumatel owned over 19,000 kilometers of fiber assets, while its network had grown to more than 610,000 homes and 222,000 subscribers.

The Deal

VUMATEL'S open access model allows partner internet service provider (ISPs) to use its infrastructure. The company charges the ISPs, who in turn leverage Vumatel's network to supply their own customers with basic connectivity, data, internet protocol television, voice over internet protocol services, bundled services and more. By allowing ISPs to share the network infrastructure, customers benefit from greater choice and more competitive pricing.

Success in the fiber infrastructure industry is dependent upon speed of execution and access to finance. Every neighborhood requires a massive investment in physical infrastructure, as the installation process includes drilling underneath roads, cabling streets and installing connectivity boxes on every house. Vantage's funding early in Vumatel's development helped the company prove that its concept was scalable and profitable. Approximately six months following Vantage's investment, Standard Bank came in with a ZAR415 million (approximately USD28 million) loan, giving Vumatel significant runway to grow.

Vantage served as a bridge to senior debt. The firm executed a commercial due diligence process on Vumatel and its subordinated position in the capital structure gave Standard Bank and other lenders greater protection. Vantage also worked closely with the Vumatel team to strengthen the company's governance framework, thus making it more attractive to banks. As part of its investment agreement, Vantage required the constitution of an Audit Committee, which oversaw the appointment of KPMG, and it helped bolster Vumatel's Environmental and Social Management System.

Vumatel announced a partnership with local investment holding company Imfezeko in 2019 to establish Vumacam. The spinout is improving security in South Africa — a country ranked as the fifth most dangerous in the world in Gallup's 2020 survey — by deploying smart CCTV cameras across Johannesburg that are connected to the city's high-speed fiber network. This technology, which includes license plate recognition, links centralized control centers and helps track suspicious activity as it moves throughout a suburb. As of October 2021, Vumacan has over 5,000 cameras installed on almost 3,000 poles, with plans to expand across the country.

Bridging South Africa's digital divide

VUMATEL seeks community buy-in before laying fiber to a neighborhood. As part of its roll-out strategy, the company gradually began targeting several lower-income townships that had previously been neglected despite residential demand. For many of these areas, Vumatel is installing aerial fiber, which is deployed on poles or towers above ground, rather than traditional trenching. Although aerial technology comes with challenges such as reduced reliability due to adverse weather and the risk of poles being cut down for firewood, the cheaper installation process allows Vumatel to reduce costs for customers. This technique is also better suited for crowded suburbs with multiple dwelling units as well as hilly or rocky areas.

The financial burden of having to pay monthly contract fees for mobile data can deter lower-income communities from accessing high-speed internet services. In 2019, Vumatel launched its Vuma Fibre Reach network to provide affordable, pre-paid access to FTTH services in underserved neighborhoods — the first model of its kind in the world. Homes that use Vuma Fibre Reach have access to a range of services including free fiber installation and a WiFi enabled device, a 20 Megabit upload / 10 Megabit download uncapped connection and technical support at any time of day. When the project was launched in the Western Cape township of Mitchells Plain, Vumatel achieved 60% penetration within the first 12 months, well above its initial goal of 30%.

Vumatel has also played a role in upgrading the infrastructure of South Africa's public and private schools. In 2015, the company and its ISP partners launched an initiative to connect every school Vumatel passes in the deployment of its network with free uncapped open access fiber-optic infrastructure. Schools receive a one gigabit per second line, which gives them greater and more reliable access to educational products and academic literature. To date, Vumatel has connected over 445 schools and 320,000 students.

Outlook

IN APRIL 2020, Vantage fully exited its investment in Vumatel through a senior debt refinancing. South African telecommunications-focused holding company Community Investment Ventures Holdings (CIVH) had initially acquired 34.9% of the company in 2018. CIVH secured the remaining 65.1% stake two years later following approval from the Competition Commission. As part of the process, a consortium of banks, including Rand Merchant Bank (RMB), Absa, Investec and Standard Bank, funded the settlement of Vantage's equity kicker and the refinancing of its loan, resulting in a money multiple of 2.7x for Vantage's investors.