

The Investor



Adenia Partners is a private equity firm that invests exclusively in controlling stakes in African businesses through seven offices across the continent. Since its founding in 2002, Adenia has raised five funds, made 32 investments and realized 17 exits as of September 2023. The firm invests in a wide range of sectors, including financial services, agribusiness, consumer goods, telecommunications, health care, education and light manufacturing.

FUND NAME
Adenia Capital (IV)

FUND SIZE
EUR230m

TOTAL AUM
USD768m

The Company



Founded in 1964, Herholdt's provides electrical, lighting and renewable energy solutions to customers in South Africa and bordering countries. The company originally sold only lighting and low-voltage electrical products, such as cables and wires, but expanded its operations in 2016 to begin offering residential and commercial solar installations, including inverters, batteries and photovoltaic (PV) modules. As of September 2023, Herholdt's operates nine branches across South Africa.

LOCATION
South Africa

SECTOR
Renewable Energy

WEBSITE
www.herholdts.co.za

DATE(S) OF INVESTMENT

JUNE '21

AMOUNT

CONFIDENTIAL

STAKE

78%



After becoming one of the youngest qualified electricians in South Africa at the age of 18, Bernard (Kiepie) Herholdt launched several businesses across the country focused on electrical contracting, lighting and renewable energy between 1964 and 2017. These companies, although operating as distinct entities in different provinces, were eventually lumped together and called the Herholdt's Group. Herholdt's youngest son, Heine, took over operations as CEO in 2018. A few years later, he was given the mandate to sell 100% of the business to a reputable owner.

A South African boutique investment bank specializing in helping local entrepreneurs with succession challenges contacted Adenia Partners. At the time, the private equity firm didn't have an office in South Africa and was not actively looking for investments there. However, the Adenia team found Herholdt's fast-growing and cash-positive business attractive. It also saw a tremendous growth opportunity in the country's solar energy market. State-owned utility Eskom had been steadily raising electricity costs, while widespread blackouts and rationing (known as load-shedding) were forcing people to spend up to six to 12 hours a day without electricity.

Adenia recognized that Herholdt's products could offer South African homes and businesses an alternative solution by providing access to cleaner and more reliable energy at lower rates than those of the national grid. Because of Herholdt's impact potential, Adenia's limited partners agreed to amend the fund's strategy to include South Africa, paving the way for an investment.

The Deal

Adenia agreed to purchase 78% of Herholdt's in June 2021. The Adenia team had been impressed by the second-generation owners and decided it wanted to form a partnership rather than fully acquire the company as originally envisioned.

Working with the CEO to professionalize the family business was Adenia's main priority, starting with merging what was a network of three branches and eight different legal structures across South Africa into one cohesive entity. Adenia also recruited several positions, including a new CFO, to round out the management team.

Given that Herholdt's operations were in secondary cities like Bloemfontein, Kimberley and George, Adenia pushed the company to launch new branches in metropolitan areas. The company opened six additional stores, including ones in Johannesburg and Cape Town in 2022 and 2023. The Adenia team also encouraged Herholdt's to grow its solar business. With Eskom increasing its rates, on average, by 15% per year and the price of solar equipment dropping by around 5% annually, by 2020, it was suddenly cheaper to be connected to solar than the national grid. Herholdt's management agreed to pivot toward this impending demand by substantially increasing inventory levels. By September 2023, solar products represented approximately 95% of the company's total sales, up from 40% at the time of acquisition.

With the opening of new stores and the push into renewables, Herholdt's growth took off. At the time of Adenia's investment, the firm had anticipated annual growth rates of around 30%; however, Herholdt's compound annual growth rate has been over 100% over the last two years as of September 2023. Over the same period, revenue has grown from EUR47 million to EUR450 million.

Inclusive & Sustainable Growth

With Adenia's support, Herholdt's solar business has become the company's primary business line, ranking among the top three solar product suppliers in South Africa as of September 2023. The company sold approximately 200,000 solar panels to wholesale customers across six South African provinces and bordering countries in 2022 alone. Through its distribution, Herholdt's has enabled the generation of approximately one terawatt hour (TWh) of renewable electricity since 2018, resulting in roughly one million tons of carbon dioxide equivalent emissions avoided (MTCO_{2e}). Customers have also benefitted from lower electricity costs that are, on average, 30% to 50% cheaper than using grid power.

Internally, Adenia worked with Herholdt's team to ensure its stores were environmentally sustainable. Most of the electricity required for the company's main warehouses is supplied by solar PV panels fitted onto the rooftops. The company generated 306 megawatt hours (MWh) of its own solar renewable energy in 2022 and is expanding this capacity in 2023.

As Herholdt's opened more stores, its employee count grew from 150 at the time of Adenia's investment to 440 as of September 2023. The number of female employees at Herholdt's has grown to 25% of its total workforce and the number of female managers has risen by 50%. In addition, approximately 42% of Herholdt's Executive Committee are women, following the nomination of six female managers in 2022.



All Herholdt's employees are paid on average 2.7 times the legal minimum wage.

Training a highly knowledgeable staff and network is important to Herholdt's as the management team recognizes that poor equipment and installation could significantly damage the local solar market where product adoption remains nascent. In 2022 alone, approximately 2,800 hours of professional training were provided to Herholdt's employees on new benefits and specifications. In addition to its direct employees, Herholdt's is contributing to local employment by creating a network of trusted installers. More than 100 installers were provided with over 400 hours of training in 2022 at no cost.

Outlook

As of June 2023, the residential, commercial and industrial market in South Africa had adopted over 4.4 gigawatts (GW) of solar capacity. This is still only a fraction of the estimated 60GW the country needs to be powered effectively. To meet the market need, Herholdt's executive team plans to further expand its operations over the next few years, including opening new branches across South Africa. Adenia is prioritizing engaging with financial institutions to secure the bank debt and trade finance lines needed to finance this growth.

Florent de Boissieu, a Partner at Adenia Partners, states, "Given South Africa's dire energy crisis, we believe that nothing will slow down the demand for solar energy solutions as people need to find an affordable and reliable way to power their lives. We estimate that Herholdt's is currently reaching around 8% of the South African market but are committed to helping it find a way to reach even more customers through lower price points and better financing options without sacrificing product quality."

Adenia Partners and Herholdt's CEO recently partnered again in Enfin Energy Finance. Enfin will finance, build, operate and maintain small solar farms for residential and corporate customers in South Africa, who in turn will be charged less than Eskom's rates. This collaboration aims to eliminate a key hurdle to the greater adoption of solar power by providing the capital and knowledge needed to begin making the transition. ●