ZOONA MOBILE MONEY: INVESTING FOR IMPACT (B)

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INTRODUCTION

After spending months pitching the business case at conferences and through his network, Mike Quinn of Zoona had succeeded in getting interest from impact investors ACCION, Bamboo Finance, and Omidyar Network, as well as from AfricInvest, an African private equity investor.

After a particularly trying few months in 2010 where cash flow was a significant problem, prospects for the mobile money operator were looking up. The company had just received a fortuitous investment by the Mennonite Economic Development Association (MEDA), which consisted of a US$350,000 cash grant and a US$300,000 convertible debt instrument from MEDA's for-profit impact investment fund, Sarona Asset Management.

However, the management team knew that a Series A investment from a credible investor was still necessary to keep the business growing. Moving into the investment stage, the management team of Zoona had the following objectives: US$2-4 million in cash to fund working capital and expansion; signing with a syndicate of two or three investment partners, one of which should be an African partner who understood African business contexts; and maintaining control at a board level. The team also preferred investors who would be able to sign up for further rounds of investment, and would provide the assistance to support their regional expansion.

Zoona's management team were nervously anticipating the term sheets that were due to arrive in Mike's inbox shortly.

GETTING ZOONA INVESTMENT READY

"Investment ready" is one of those buzz terms that many investors say without appreciating the amount of work it actually takes. It often takes years, and has enormous opportunity costs as it distracts from delivering your product to your customers. It is why companies cannot get funding–they cannot get over the hurdles to get to the investment ready stage." – Mike Quinn

The investors' due diligence had revealed three things that needed to happen to get Zoona investment ready: first, the capital structure had to be cleaned up; second, an advisory board would have to be created; and finally, an investment model setting the growth path would have to be built.

Zoona's corporate structure was not for the faint-hearted investor: it involved three companies across different countries, as well as issues with accrued founders' salaries, leased out intellectual property and cross licensing. As a part of cleaning up the shareholding, Zoona needed to restructure its relationship with Dunavant, the global cotton company who had invested equity in 2008 and owned 35% of the company. The management team knew that investors would be uncomfortable with conflicts of interest in Dunavant being both a client and shareholder. At the same time, Dunavant had recently undergone a change of ownership which had included a change in management and strategic direction. The relationship, which had started as a marriage of convenience, had now become a burden to Zoona's investment prospects. Given these considerations, the team moved to purchase this equity back in full, which in turn would enable the founders to take Series A funding without being overly diluted.

Secondly, the founders set up an advisory board to provide strategic oversight and improve good governance in anticipation of the upcoming Series A. Under the guidance of John Schroeder, a venture capital veteran who had met the team through the Grassroots Business Fund, Zoona set up an advisory board to instil the discipline of holding strategy meetings, creating board packs and building the rigour of investor relations.

Thirdly, Mike spent a gruelling four weeks locked away, creating a seven-year investment model, which greatly impressed the investors. However, this meant that Mike was completely unavailable to help the team with the day-to-day challenges they faced in growing the business.

EXITING DUNAVANT

Dunavant Enterprises is a Memphis, Tennessee-based shipping and logistics company with its roots as a global cotton merchant. Dunavant had been one of Zoona's first investors, taking a 35% stake in the company to build a payments solution and cotton outgrowing scheme to serve 150,000 farmers, the first of its kind on the continent. For most of the relationship, Dunavant had been a passive shareholder, but an ownership change in late 2010 had left the Zoona team without clarity about the future.

As the Zoona team worked through their long-term business plan and financial model, Dunavant advised that they would not agree to a restructuring plan that was included in the plan. Their preference to exit Zoona came as a complete surprise, and was announced just one week before a due diligence trip was scheduled with AfricInvest and ACCION.

Mike had to break the news to the prospective investors when they arrived in Zambia. After much consultation, ACCION offered to provide the company a US$350,000 loan to exit Dunavant, with the understanding that it would be converted to equity in the upcoming series A.

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The first term sheet Zoona received was led by AfricInvest, an African based private equity firm, who was looking to co-invest equally with ACCION, an international impact investor focused in the micro-lending space. The second term sheet was received from the Omidyar Network. However, the Omidyar Network did not want to invest alone, and instead wanted Zoona to select an acceptable investor to join the term sheet equally and on the existing terms.

The founders and partners faced a dilemma: they first had to understand what each deal meant for them, the key differences between them, what their options were and what terms they could push back on. If they favoured the Omidyar Network term sheet, whom would they select as the co-investor? If they chose to go with Omidyar Network, were they not betraying the trust of ACCION? Furthermore, Bamboo Finance had indicated an interest, but had not as yet submitted terms—should they pursue another term sheet, or would this be viewed as playing the investors off one another?

Either way, the team had to act fast as they knew that their current cash flow wouldn't cover them beyond the next six weeks.

APPENDICES

Appendix 1 – Key Differences in Term Sheets

All currency amounts in US dollars.

TERM	AFRICINVEST/ ACCION	OMIDYAR NETWORK
Pre-money valuation	$4,200,000	$4,500,000
Investment amount	$2,000,000	Minimum $3,000,000
Employee pool	420,000 – pre-money dilution	450,000 – equal dilution
No of investors	2	2
Security	Preference shares	Preference shares
Dividend	12% cumulative	None
Liquidity preference	2x	1.5x
Redemption rights	Can force a sale of company four and half years after signing	1x return on original investment 10 years after signing
Conversion	3x	3x
Automatic conversion	IPO at $20 million	IPO at $22.5 million
Anti-dilution	Full ratchet	Weighted average
Protective provisions	Unspecified	Unspecified
Board size	5	5
Director indemnification	Same	Same
Information rights	Annual, quarterly, and monthly financial statements, and other information as determined by the Board, thirty days prior to the end of each fiscal year, a comprehensive operating budget forecasting the Company's revenues, expenses, and cash position on a month-to-month basis for the upcoming fiscal year; and promptly following the end of each quarter an up-to-date capitalization table	Annual, quarterly, and monthly financial statements, business plan, budget and other information reasonably requested by the investor 45 days prior to the end of each fiscal year
Right of first refusal	Same	Same
Co-sale rights	Same	Same
Drag-along rights	50% majority	2/3 majority
Vesting of founder shares	25% after one year, with the remainder vesting monthly over 36 months. Voluntary leaving or termination without cause will result in forfeiture of unvested shares	25% after one year, with the remainder vesting monthly over 36 months. Voluntary leaving or termination without cause will result in forfeiture of unvested shares, accelerated vesting for termination without cause unspecified
Non-competition agreement	Same	Same
Legal Expenses	$50,000	$40,000
Measuring social outcomes	None	None

Appendix 2: Investor Profiles

AfricInvest

AfricInvest is a private equity firm with a strong focus on emerging and frontier markets. It is a specialist investor in Africa, with 110 investments across 22 African countries and offices in Algiers, Abidjan, Casablanca, Lagos, Nairobi and Tunis. While AfricInvest is not an impact investor, it manages a technology-focused fund and a financial-focused fund, making it an ideal partner for financial technology companies.

Current investment in Zoona

- None

Anticipated non-financial contribution:

- Expertise in regional expansion
- Highly attentive and involved in their investments
- Industry contacts and networks
- Operational and strategic direction
- Coaching

Investment thesis

- Private equity approach
- Mainstream investor, no social component
- Manages 3rd party funds
- Private equity

Current portfolio

- 110 investments across 22 countries (2014)

Criteria for investment

- Focus on top-line growth
- Valuation based on EBITDA

Required social reporting metrics

- None

Accion Global

Accion Global (Accion) is a global non-profit founded in Venezuela and now based in Washington DC, USA, which focuses on building capacity in the microfinance space. It aims to "champion microfinance and financial inclusion and empower people with the tools, partnerships and support they need to build better lives, better prospects and stronger communities." (Accion, 2012, p 22) Since its inception in 1961 it has helped build 63 microfinance institutions across 32 countries on four continents.

Current investment in Zoona

- A convertible loan to the value of US$350,000, explicitly to exit Dunavant as a shareholder in preparation of the Series A round

Anticipated non-financial contribution:

- Industry contacts and networks
- Managerial experience in similar business models
- Technical assistance
- Credibility
- Coaching

Investment thesis

- ACCION is an impact-investing fund with a focus on financial technology for the unbanked with the belief that technology enabled business models will radically reduce the cost and increase the quality of financial services to the poor
- Does not manage third party money: Own investment pool is generated by the successes of previous investments as well as donations

Current portfolio

- 63 microfinance institutions across 32 countries on four continents.
- Has invested in AfricInvest

Criteria for investment

- Social impact

- Venture capital approach
- Local support: “One of our beliefs was that it is really important to bring in strong, local support, so our syndicate had an African player in it” – Monica Brand, ACCION

Required social reporting metrics

- None, only operational and financial KPIs

Bamboo Finance

Bamboo Finance is a commercial private equity firm specializing in investing in business models that benefit low-income communities in emerging markets. It has offices in Luxembourg, Geneva, Bogota, Nairobi and Singapore.

Current investment in Zoona

None

Anticipated non-financial contribution:

- Coaching
- Managerial experience
- Industry contacts
- Credibility

Investment thesis

- To fund companies that improve access, affordability, suitability of essential products or services and livelihood opportunities for low income people, including housing, healthcare, education, finance, energy, water, and sanitation.

Current portfolio

- US$250 million
- 46 investments across 30 emerging market countries

Criteria for investment

- The company does not need to only focus on low income but low income should represent a significant percentage of target customers/beneficiaries

Required social reporting metrics

- Own list of indicators as per case defined impact framework

The Omidyar Network

The Omidyar Network (Omidyar) is a hybrid venture capital – philanthropic institution founded by Pierre Omidyar, co-founder of eBay. Established in 2004, it has a unique structure that allows it to traverse the normal boundaries between grants and for-profit investment, having invested more than half a billion dollars in targeted industries by 2012. (Bannick & Goldman, 2012)

Current investment in Zoona

None

Anticipated non-financial contribution:

- Institutional value adds: high-growth consultants and human capital development
- Strong networks and industry contacts: colleagues built PayPal and eBay – good tech perspective
- Big name credibility

Investment thesis

- Omidyar takes the position of investing in targeted industries, rather than individual growing firms. Financial inclusion via the enablers of mobile banking and microcredit is one of its targeted industry sectors
- “I see a key part of our work is building a low cost payment infrastructure that enables everything in banking, and more.” – Arjuna Costa, Omidyar Network
- Has own large source of funds
- Venture capital approach
- Technology focus and background

Current portfolio

- For profit investments have reached US$333 million, with a further US$404 million in grants

Criteria for investment

- Social impact, however on this deal is investing purely on commercial terms
- Wants to co-invest to create a syndicate. Criteria for co-investment:
    - Has to be someone trusted
    - Preferably with a local firm

Required social reporting metrics

- One annual report – low intensity

Sarona

Sarona is a privately held investment firm with a frontier and emerging market focus. It is closely aligned with its former parent company, the Mennonite Economic Development Association (MEDA), a non-profit development agency with its roots in farmer and entrepreneurial support founded in Paraguay in 1953 and now based in Canada, the US and Germany. Sarona acts as MEDA's investment arm and channel for grant, debt and equity investments. MEDA is a development agency with its roots in farmer and entrepreneurial support. It aims to channel "agricultural savvy, investment vigor and vital financial services to create business solutions to poverty." (Mennonite Economic Development Association, 2013, p 2)

Current investment in Zoona

- In March 2011, Zoona received a US$350,000 grant from MEDA as well as a US$300,000 convertible debt loan from the Sarona, which was used to pay off the initial outstanding loan from GBF of US$200,000

Anticipated non-financial contribution:

- Coaching
- Managerial experience
- Industry contacts
- Donovan Nickel, a MEDA member and ex-executive vice-president of Hewlett Packard in charge of R&D globally, has provided coaching and mentoring to Mike and the team

Investment thesis

- To channel agricultural savvy, investment vigor and vital financial services to create business solutions to poverty
- "What we try to do is invest with a kind heart, but also with a clear and focused mind." – Serge LaVert-Chiasson
- Manages own funds

Current portfolio

- Sarona has investments in Latin America, Africa, Asia
- MEDA has operations in 25 countries

Criteria for investment

- Investment strategy: investments between US$250,000 and US$2 million

Required social reporting metrics

- For the loan: have asked for impact reporting metrics on an ad hoc basis, and they have been provided voluntarily, but there is no formal commitment required from Zoona
- 33 IRIS compliant metrics each year