African Angel Academy

# Case study

SweepSouth and Newtown Partners:
**From entrepreneurs to angel investors**

SweepSouth

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|---|---|
| **COMPANY** | SweepSouth |
| **LOCATION** | South Africa |
| **SECTOR** | Digital marketplace for cleaning services |
| **ANGEL** | Llew Claasen |
| **STAGE** | Pre-seed |
| **ENTRY** | 2014 |
| **EXIT** | 2019 |
| **RETURN** | 15x MOIC |

# "ENTREPRENEURS NEED A PARTNER, NOT JUST A FINANCIER"

"It's not just about 'Are you going to write a cheque for me?' It's about 'Are you going to have my back when things don't go according to plan?"

Looking back at the marathon fundraising round of 2019, Aisha Pandor, the CEO and co-founder of SweepSouth, found it difficult to explain to people who were not there just how tense that period had been for the business and for investors.

"That was the most stressed I've ever been in my entire life," Aisha said as she looked back on their first Series B round.

Over the five years that she and her husband and co-founder Alen Ribic had been growing their company, they tended to fundraise just slightly too late, always securing the next investment just in the nick of time. In these moments, Aisha had always felt calm and confident of what lay ahead, secure in her belief that they would manage to bridge the next gap. So she had become accustomed to this dance: the period of intense focus on the business, followed by a scramble for more investment, and then the sprint to the next level once they secured their funding.

But this time, they were coming down to the wire. Their interactions with investors were changing. As their business matured and more institutional investors came on board, they did not have the same close relationship with their investors that they once did. Not like in the early days when Vinny Lingham and Llew Claasen, the founders of Newtown Partners and SweepSouth's first angel investors, had understood the business in and out because they had been there, right beside them, through everything. And because they were also entrepreneurs who knew what it was like to be on the other side. Llew had worked shoulder-to-shoulder with Aisha and Alen almost from the beginning. He was the one who had helped them make their first cap tables, taught them how to approach valuation, even managed their marketing campaigns when their shoestring budget did not permit them to employ a marketing team. But for the past year, SweepSouth had been transitioning into a new phase and it was time for their angel investors to exit.

Aisha understood why Llew and Vinny needed to move on, why they needed to focus on other early-stage startups, because of the essential role they had played in SweepSouth's own early development.

"I know now that having the right early-stage angel investors can make or break a business," Aisha reflected.

Llew knew this too. Part of the reason he had become an early-stage investor was to help other inexperienced entrepreneurs avoid the pain he had experienced as a founder from investors who were not supportive, not willing to share their knowledge.

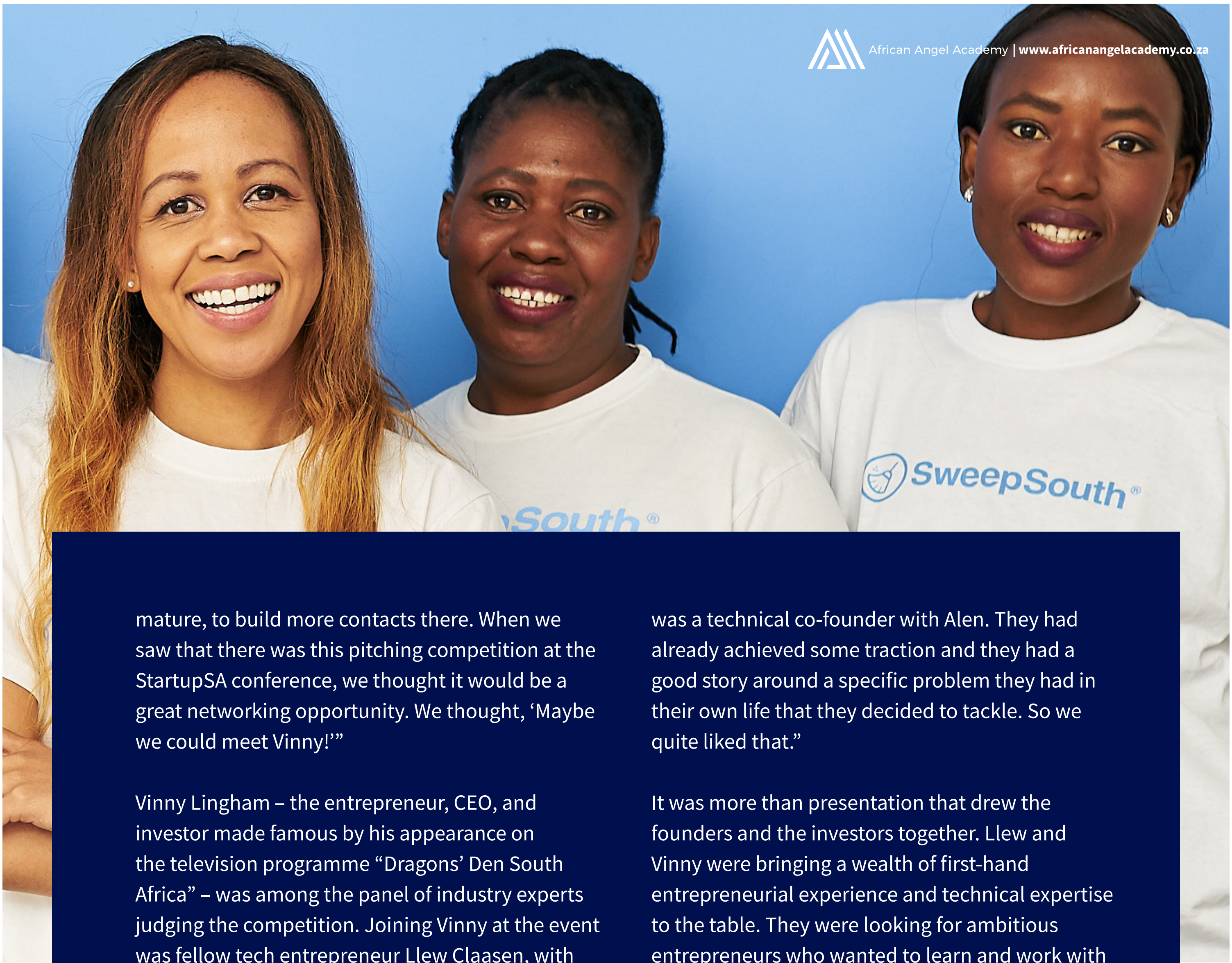
# REWIND

It's October 2014. SweepSouth has just won the first ever StartupSA pitch competition hosted by SiMODiSA, an association created to promote South African entrepreneurs.

SweepSouth

Aisha Pandor and Alen Ribic had launched SweepSouth in their home city of Johannesburg just four months before as a B2C platform matching domestic cleaning workers with customers. The idea had come from their own challenge with sourcing flexible cleaning services to fit within their changing schedules. After participating in a 10-week entrepreneur education programme for founders in Johannesburg, SweepSouth had around 100 users and was hungry for more. Aisha and Alen entered the competition in Cape Town for the opportunity to expand their network more than anything else.

"The entrepreneur ecosystem in Joburg was not that big yet and we were moving faster than others in the space at the time," Aisha explained. "So we decided to go to Cape Town, where the ecosystem seemed more




mature, to build more contacts there. When we saw that there was this pitching competition at the StartupSA conference, we thought it would be a great networking opportunity. We thought, 'Maybe we could meet Vinny!'"

Vinny Lingham – the entrepreneur, CEO, and investor made famous by his appearance on the television programme "Dragons' Den South Africa" – was among the panel of industry experts judging the competition. Joining Vinny at the event was fellow tech entrepreneur Llew Claasen, with whom he had just launched the early-stage venture capital (VC) firm Newtown Partners. By this point, they had made several investments together as both angels and VCs, most of which were overseas businesses. Now they had come to StartupSA in search of leads on South Africa's up-and-coming tech entrepreneurs.

In the end, it seemed everyone got what they came for.

"Vinny really liked the pitch – he came and found us in the audience immediately after we pitched. He liked that Alen and I had been able to build so much just between the two of us and he saw our synergy as co-founders. Right away he said he wanted to invest," Aisha remembered.

Llew recalled why SweepSouth stood out to him: "Aisha was very charismatic and smart, and we thought that she had the potential to be a good CEO. We also got confidence about the fact there was a technical co-founder with Alen. They had already achieved some traction and they had a good story around a specific problem they had in their own life that they decided to tackle. So we quite liked that."

It was more than presentation that drew the founders and the investors together. Llew and Vinny were bringing a wealth of first-hand entrepreneurial experience and technical expertise to the table. They were looking for ambitious entrepreneurs who wanted to learn and work with them as partners to maximise their opportunities. Aisha and Alen were experienced professionals, slightly older than the average startup founders, who had a vision and the competence to bring it to life. But they had been bootstrapping their business until that point and they needed someone they could trust to help them navigate the new world of fundraising.

***"We weren't intending to get an investor at that stage,"*** Aisha said of the initial offer from Vinny. ***"We were completely unprepared for a conversation about investment.*** I think it was really fortunate that the first person who approached us was someone who had built a tech business himself, and who wasn't looking to opportunistically take advantage of these young founders who really had no idea what they were doing in terms of funding."

# COMING TO TERMS

"If you can work through that process with an entrepreneur and not get hung up on term sheet terms – not get upset with each other or take things personally when they don't agree with the terms – it gives you a pretty good indication of what it's like to work with that person afterwards."

Llew and Vinny immediately took SweepSouth a term sheet to begin hashing out how they might work together, structure the transaction, and bring in other angel investors for pre-seed funding. After only four months in operation, SweepSouth had a promising proof-of-concept, but there was still a great deal more to be done in the way of testing and tweaking the model, marketing, and features.

"We closed that transaction relatively quickly," Llew explained. "There was not a lot of due diligence to be done. It was a pre-seed round so it was more about the team and an assessment of the size of the market, and sort of, put some cash in and see if it's worth pursuing."

At the time, convertible notes and simple agreements for future equity (SAFEs) were not yet common instruments for angel investors. Llew and Vinny therefore knew they would be making a small equity deal to keep SweepSouth moving and progressing to the next phase of development. Which is why it was important for them not to get preoccupied with terms or overly complicated instruments. Nevertheless, the negotiation process served another more important purpose for the founders and angel investors; it provided an opportunity for learning, establishing trust, and building a relationship.

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It was clear to Llew and Vinny from those early interactions with Aisha and Alen that they could build a good working relationship based on open communication. It also helped that the founders and investors all had something in common: their systematic, analytical approach to decision-making. Llew applied this methodological mindset to deal sourcing and screening as a general rule.

"I insist on using methodological tools that force me to assess the opportunity before listening to the entrepreneur's story. Because if I don't, I get drawn to something that resonates with me in the pitch, to the detriment of all the red flags that are going up."

One of Llew's trusted tools was the Canadian Innovation Centre's "Critical Factor Assessment", which provides eight dimensions of opportunity assessment: performance advantage, market readiness, product uniqueness, first customer, distribution, market size, the entrepreneur, and the financial plan. For Llew, the utility of the framework was not to provide a checklist for investors, but to guide his thinking along all the important dimensions of a deal and curb possible biases toward the story or founders.

Although Llew did not generally believe in hard "deal-breakers", or that businesses had to tick all the boxes for angels to proceed, his experience told him that no one could afford to compromise on the "entrepreneur" factor – the founder abilities, personality, and commitment. Both the opportunity and the founder team had to be strong.

"I've made investments where the team was horrible but the opportunity was so strong that I was willing to take my chances," he said. "And it's never worked out."

This was not a concern with SweepSouth. As Llew quickly learned, SweepSouth's founders were also extremely methodological where business was concerned. Aisha was a scientist by training, with a PhD in human genetics and experience as a management consultant, while Alen was a software developer. And though both Aisha and Alen had entrepreneurial spirits, they were scientists at heart.

"Everything was a hypothesis for Aisha, and Alen was like that as well.

Everything was driven by data, which is honestly the best way to run a startup. These are basic things, but they did it really well," recalled Llew.

Moreover, Aisha and Alen were strong professionals who were supportive of one another, shared similar sensibilities, but also complemented each other in terms of skill sets. Most fundamentally, they were aligned in their vision for the business, which was to address a common problem that they understood well from personal experience, and in a way that would have a positive impact on society more broadly.

"We genuinely enjoy working together," said Aisha of her working relationship with Alen. "We genuinely loved building a business together and respected the skills that each other has. And I think that comes across when we speak to investors. We have always been a hundred percent aligned with every major decision we make for the business."
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# CLOSING TIME

"There is no such thing as valuation at a pre-seed level," Llew explained. "There is only, 'How many rounds of funding do I think you need to go through?

While several investors had approached SweepSouth at the pre-seed stage, Llew and Vinny were the first to close. Their approach to deal structure for early-stage investments was shaped by their own experiences as founders and several other investments made through Newtown Partners.

***"There is no such thing as valuation at a pre-seed level,"*** Llew explained. ***"There is only, 'How many rounds of funding do I think you need to go through?*** And are you still going to own enough of the business in future to create a strong enough economic incentive to persevere when times are tough? Or are we going to have to top your shareholding up in future anyway because you're going to need a lot of capital at relatively low valuations?' So there's no objective valuation for a startup at that stage."

Llew therefore preferred to use SAFEs, which allowed angels and founders to postpone the valuation question, keep the terms simple, and begin playing with the business model as quickly as possible. It also avoided the legal costs associated with formal due diligence and term sheets before the team had a minimum viable product (MVP).

"We now try to use SAFEs as much as possible, especially if we're the first investor," Llew explained. "There is just no point in spending money on lawyers at this time. Let's just start and see how far we go and see if it's even worth formalising this before we bother."

It was for this reason that he tended to avoid convertible notes, and the unnecessarily complicated terms they could confer, for angel investments. Still, others would see convertibles and SAFEs as viable alternatives for the same use case.

"There are two scenarios where convertibles and SAFEs can be used. The one is if you genuinely


can't agree on valuation but you want to get a transaction done, and that typically happens earlier on. And the other is when you're doing bridge financing – extending the current round runway by a few months so that the startup can hit the milestones that it needs to in order to raise the next financing round at a strong valuation."

The issue of valuation proved an early sticking point between the angels and the founders. As newcomers to fundraising, Aisha and Alen were focused on valuation as a representation of the total funding they would need to realise their vision for the company. Meanwhile, Vinny and Llew had to explain that valuation was not an appropriate metric for the business at the stage and that a high valuation was the wrong goal.

"We had a few conversations with Vinny and Llew and their thinking was that we should not fixate too much on valuation at such an early stage of the business," said Aisha. "They said we should rather be concerned about not losing too much control as founders and not diluting too much. They said, 'We promise you from our own experience that this doesn't matter as much as you think it does'. And they were right."

This exchange over valuation became a cornerstone of the founder-angel relationship. It was an early demonstration of Vinny and Llew's commitment to the entrepreneurs' best interest, as well as the founders' willingness to engage and learn.

"Aisha was someone who, even if she didn't understand sometimes, at least not initially, she was open to explanation or discussion, and she would be like, 'Oh, I get it'," Llew said. "And that doesn't mean we always got our way, but the point is that it was a discussion."

# BUILDING TRUST THROUGH ACTION

“Investors can have a reputation for being extractive. Llew and Vinny did not treat us like that. They sounded like entrepreneurs. They could identify with us as entrepreneurs. We had the sense that they really respected us as founders, respected what we could bring to the table, and were trying to help support us.”

For Aisha, the early experiences of navigating investment with their angel investors highlighted the importance of trust, respect, and experience in the early investor relationship.

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Llew and Vinny understood this extractive approach all too well because they had been on the receiving end of it.

“When Vinny and I were taking cash from investors as entrepreneurs, it felt like many investors at the time were open to taking advantage of you and giving you bad terms. And many of the other investors on the cap table were totally apathetic. Like, ‘Oh well, that’s what you get’,” said Llew.

Which is why when Llew and Vinny started Newtown Partners, they were determined to be different. It was true that the role of institutional investors and investors who joined at a later stage was different to the one angels played in supporting the business. It became less entrepreneur-focused as the business matured. Nevertheless, it was a deliberate choice by Llew and Vinny as early-stage investors to support founders as much as possible.

“It’s quite easy to see the relationship as the entrepreneurs being on one side, and investors being on the other. But we actually identify with the founder; we see ourselves as being on the entrepreneur’s side. So, if we have to make a choice – between the interest of the entrepreneur or the interest of other investors – we are always going to side with the entrepreneur. And we say that up front. But we try not to just say that, we try to do things that prove it.”

During the pre-seed phase, Llew was spending nearly two hours every day communicating with Aisha about the business over WhatsApp messages and phone calls. He recognised that it was not sustainable or realistic to dedicate so much time to advisory. Most angel investors had day jobs and multiple investments competing for their time, and could not afford to reach out to every founder with advice or support. But Llew also recognised Aisha and Alen’s drive and desire to learn.

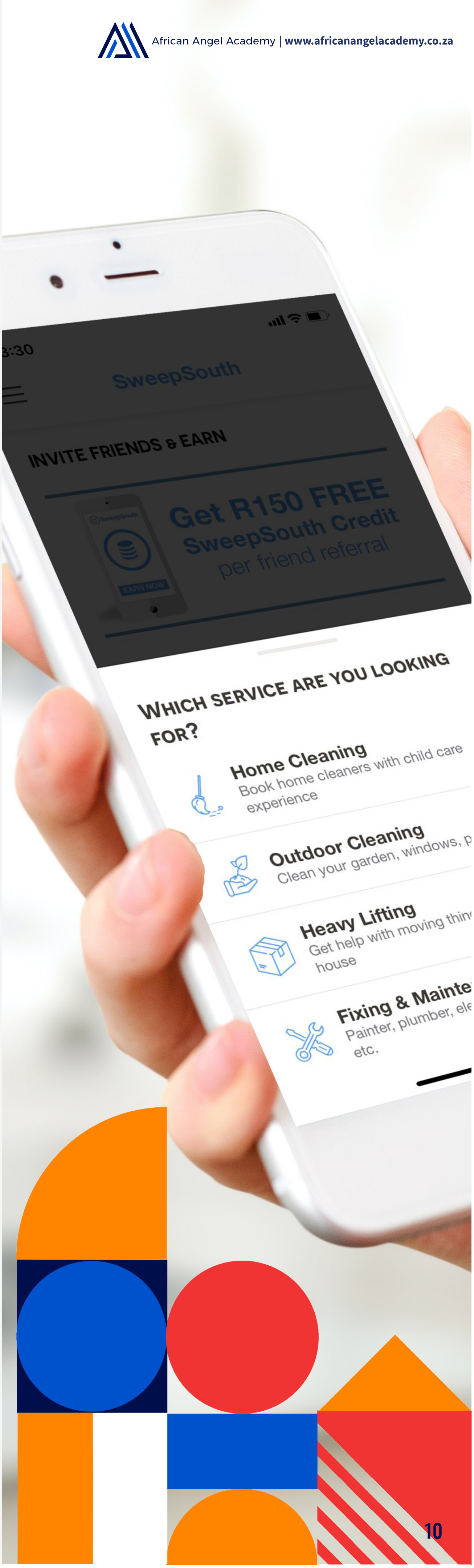
“I tell entrepreneurs all the time, do not expect your investors to come to you with ideas and introductions and opportunities. You have to pull it out of them. You have to be like, ‘Do you know somebody here? What do you think about this? Can you help me to solve this problem? What is your opinion on this thing?’” said Llew.

This is what Aisha and Alen did. It was very clear that they were trying to absorb as much as possible so that they could actionise Llew’s input. Of the 12 companies Llew had in his portfolio at the time, he spent the most time with SweepSouth because he could see the founders applying his feedback and growing more competent and successful with every passing week. For Aisha, engaging the advice and expertise of their angels was never a question because it was a necessity.

“We sacrificed so much for the business that there was no ego. We had bootstrapped and poured everything into it. We had nothing, so we had to make this thing work. My ego was not going to stand in the way of me going, ‘I actually have no clue what I’m doing here,’ or ‘This is going really badly, please help’,” said Aisha. “We had a pretty good idea of the big picture of how we wanted the business to unfold, and that guided the support we received.”

Aisha and Alen knew what their gaps were. Between Alen’s technical expertise with software design and Aisha’s management expertise, they had a strong grasp of the business operations and planning. But they needed someone who could provide a sanity check for their projections, assist with marketing, guide them through fundraising, and generally advise on the practical steps to reach their goals. As an expert market strategist, Llew had the ideal skillset to fill these gaps at SweepSouth’s formative stage. In the months that followed, Llew was on the ground with Aisha and Alen, working with them to determine the price point per clean, developing the product features, and fixing marketing campaigns to push user numbers.

“Llew was very hands-on with the actual paid campaigns – tweaking the messaging and presentation. And because he had the experience, he could see where we were managing and where we didn’t have a team member with the right capabilities and he would say, ‘Ok, let me slot in here and help you out’.”



# EXIT STRATEGY

"I really firmly believe that angels should exit early. I don't think they should stick around to the end, and there's many reasons for that."

After SweepSouth won the StartupSA competition and closing with Vinny and Llew, a string of successes followed. In 2015, they secured seed funding and were selected to participate in the prestigious Silicon Valley accelerator 500 Startups, becoming the first South African startup to do so. By the end of the year, SweepSouth showed impressive traction, generating 100,000 hours of cleaning through the platform. In 2016, they launched their mobile booking app, whereas previously all bookings were made through their desktop website. In 2017, SweepSouth won the award for "Best Small Company" at the Southern African Venture Capital and Private Equity Association (Savca) Industry Awards. By the start of 2018, they had created job opportunities for over 5,000 domestic workers – or "SweepStars" – across South Africa and clocked over 2 million hours of cleaning.

**2015**

**Secured seed funding**

By the end of 2015, SweepSouth showed impressive traction, generating 100,000 hours of cleaning through the platform

**2016**

**They launched their mobile booking app**

**2017**

**SweepSouth won the award for "Best Small Company**

**2018**

They had created job opportunities for over 5,000 SweepStars across South Africa and clocked over 2 million hours of cleaning

As SweepSouth took off, Aisha became more comfortable in the role of CEO and navigating the fundraising gauntlet. Meanwhile, thrilled with the company's traction and the founders' success, Llew and Vinny could see that their role in SweepSouth's journey was coming to a natural end.

**"I really firmly believe that angels should exit early. I don't think they should stick around to the end, and there's many reasons for that. One reason is purely economical, which is that you need to recycle the cash if you're an angel. So we were ready for our exit, and I think that's healthy for angels to do, for both parties," explained Llew.**

At Newtown Partners, the investment strategy was to exit after the business had gained appreciable traction and was on an upward trajectory, but before acquisition. This was typically after three to five years. They preferred to exit when they had achieved a strong internal rate of return (IRR) rather than wait to maximise the multiple on invested capital (MOIC) at the end, a payoff that was never guaranteed.

Their strategy was also motivated by the need to maintain a healthy investment ecosystem. On a practical level, their contribution, both financial and advisory, was diminishing relative to the growing size of the company and institutional investment. But Vinny and Llew also knew it was important for other voices to be heard and for Aisha and Alen to continue to grow in new directions. Meanwhile, as angel investors, they needed to cyclically invest in multiple early-stage startups to continually seed the field of growth tech startups for later investors. Aisha understood the importance of this cycle as part of the angel investor mandate.

"Angel investors don't have the capital available to just invest long-term. They need those exits to continue investing and build up credibility, which they do via exits," Aisha said.

Although 2019 proved to be an exceptionally challenging year for SweepSouth as it tried to balance the competing demands of its incoming and outgoing investors, once again, founder and investor got what they needed. Naspers Foundry made a R30 million investment in SweepSouth's first Series B round. Llew and Vinny sold their stake to Naspers, exiting at 15x MOIC.

# ENTREPRENEURS FOR ENTREPRENEURS

By 2020, the gains of SweepSouth's new growth phase could be measured in size and scope.

The platform had grown to include **25,000** SweepStars.

They were **diversifying** with outdoor cleaning services, artisanal services, and even financial services.

And in mid-2020, SweepSouth made its first **international expansion** into Kenya.

At the same time, Aisha decided to make a big leap for herself, joining the Entrepreneurs for Entrepreneurs (E4E) Africa team and becoming an early-stage investor.

The experience of working with Vinny and Llew at SweepSouth had illustrated to Aisha how catalytic it was for entrepreneurs to be supported by other entrepreneurs at the pre-seed and seed funding stages. Although Aisha and Alen had been fortunate to work with a series of supportive early investors who were either entrepreneurs or had entrepreneurial mindsets, their interactions with prospective institutional investors at later stages showed them how much more painful the process could be when an investor did not fully understand or appreciate the founder experience. Aisha explained:

"With investors who are not entrepreneurs or who have not gotten in deep with entrepreneurs, it often happens that every engagement with them as an investee is about trying to minimise their perception of the risk of investing in you, even after they've invested. It's unnecessary and tiring for entrepreneurs. And it also just totally stunts your creativity and your ability to think big."

Aisha didn't want that experience for other entrepreneurs who were trying to bring important businesses to life. She also wanted to contribute to creating an investment in a startup ecosystem that was more representative of people like herself, her customers and colleagues, and the country as a whole.

"I had a really tough time as a black, female entrepreneur – who was running a business where my customers on both sides are largely black women – speaking to rooms full of white, male investors. I really struggled with trying to bring across the value of this idea, trying to come across as very confident, trying to build a rapport. That was a combination of my own lack of self-confidence as a woman and a black person going into this space, but also the composition of the investor space, where no one really looked like me. And E4E provides a way to address that."

E4E Africa is a diverse team of entrepreneurs who invest in tech businesses, are willing to get their hands dirty with founders, and specifically target underrepresented founders. While Aisha was beginning to devote more time to promoting entrepreneur-investors, Llew and Vinny were doing the same at Newtown Partners.

*"Entrepreneurship is really, really tough. If investors and analysts think that the entrepreneurs' decisions are obvious and that they know better, I promise you, the decisions are not obvious and the analysts do not know better, unless they have been there," Llew said.*

"I genuinely believe that for you to be a good angel investor and VC, you need startup experience. We tell the analysts on our team at Newtown, 'If you want to go out, start a business, and come back in two years if it fails, do it!'"

# DISCUSSION QUESTIONS

*First-time founders often need education around key aspects of investing e.g. deal structuring, terms, and valuations.*

**Q** How do you think these early discussions impacted the long-term relationship between Newtown and SweepSouth?

**Q** How do you manage your role as an angel where you need to both educate and negotiate with first-time founders?

*When Newtown invested into SweepSouth, they took equity and it was a priced round even though it was a pre-seed deal. Newtown now prefers to use SAFEs and delay the valuation decision with their investee companies.*

**Q** How do you manage your valuation process or do you prefer to delay the valuation discussion with your early-stage deals?

**Q** What are the advantages and disadvantages of this for you as an angel as well as the founders?

*Llew uses the Canadian Innovation Centre's "Critical Factor Assessment" framework for early-stage deal analysis.*

**Q** Do you use a framework or checklist for assessing early stage deals and what are the advantages of doing so?

**Q** What other tools or methods could you use as an angel to manage your natural biases?

**Keywords**
Deal sourcing, opportunity assessment, SAFE, founder-focused, partnership, B2C, digital marketplace, entrepreneur-investor

African Angel Academy

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