African Angel Academy

Case study

Twiga and Joy Muballe:
Taking a leap for agritech in Kenya

COMPANY	Twiga Foods
LOCATION	Kenya
SECTOR	Agritech
ANGEL	Joy Muballe
STAGE	Seed
ENTRY	2014
EXIT	2018
INVESTMENT	US$75,000

TWIGA FOODS WAS AN EARLY-STAGE STARTUP DEVELOPING A LAST-MILE FRESH PRODUCE DELIVERY SERVICE FOR SMALL, INFORMAL RETAILERS IN KENYAN CITIES.

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When Joy Muballe first heard the agritech startup Twiga Foods pitch at an investor showcase by Fanisi Capital, she immediately sat up a bit straighter and leaned in a bit closer. Joy was the Portfolio Manager for East and Southern Africa at the Lundin Foundation, a non-profit organisation focused on impact investment in Africa within the sectors of agriculture, energy, and financial inclusion. She oversaw Lundin's investment in Fanisi Capital's first fund at the time and was now reviewing the pipeline for the second fund. It was 2015, long before digital marketplace startups had become ubiquitous across every hackathon, business accelerator, and tech incubator in sub-Saharan Africa. But right away, Joy was intrigued by the model sketched out in Twiga's pitch and ready to bring it to her team.

Twiga Foods was an early-stage startup developing a last-mile fresh produce delivery service for small, informal retailers in Kenyan cities. Joy had come across similar models while sourcing deals for Lundin, but they were all focused on distribution of fast-moving consumer goods (FMCG) or pharmaceuticals. This was the first pitch she had seen that focused on sourcing and delivering fresh produce, a far more formidable logistical challenge. More compelling still, Twiga was a first mover with two experienced founders at the helm in Grant Brooke and Peter Njonjo.

Based on her knowledge of agribusiness in East Africa, as well as her experience as a customer and observer of the local market of small last-mile retailers in Nairobi, Joy was sure that if a strong team could move fast and build the right capacity, they could create a business that was not just sustainable, but extremely scalable and impactful. Which is why Joy was taken aback when her team decided to pass on the deal. They were familiar with the company, but they simply did not see the same potential Joy did. Suddenly, the ball was back in her court.

Having co-founded her own tech startup early on in her career, Joy knew the rigors of entrepreneurship all too well. It was part of the reason she had joined the SME investment ecosystem in the first place. But after years of screening African businesses for larger institutional investors, Joy had yet to take the leap to become an investor herself.
Was now the time?

It was still very early days for Twiga; after less than a year in operation, they were looking to raise US$1,500,000 in seed funding with a minimum ticket size of US$100,000. As a first-time angel with a modest risk appetite, Joy was not sure she was sufficiently prepared to take on so much risk as a lone investor. But she did not want to let the steep ticket size stand in the way of supporting this promising startup at such critical stage in their development. She was convinced Twiga was different – that it had the potential to be a big and impactful success story. One way or another, she would get on board.

FAST FORWARD

“A Kenyan agritech startup is going pan-African with a $30 million round led by Goldman Sachs,” declared Quartz Africa.

It’s October 2019. Twiga Foods is on the lips – and headlines – of every African business media house.

“Goldman Sachs leads funding of Kenyan fresh-food distributor,” announced Bloomberg.

“A Kenyan agritech startup is going pan-African with a $30 million round led by Goldman Sachs,” declared Quartz Africa.

It was four years after Twiga had exceeded their seed funding target with US$1.7 million raised in a round that was oversubscribed. By this time, Twiga had built a solid track record in Kenya by sourcing fruit and vegetables from 17,000 farms and delivering directly to over 8,500 vendors, all through a simple, cashless online platform. Now, as they announced their third Series B round to fund their West African expansion plans, it seemed major international investors were catching on to the same opportunity that had been so clear to Joy Muballe years before. Fortunately, she had made her move early on and exited in a strong position ahead of the Goldman deal, which would have required significant additional investment from her company in order to avoid dilution.

In light of Twiga's latest raise, its largest to-date by far, it was tempting to look back and see the company's success as inevitable. The promise of Twiga's model – the tech, the founders, the team, the impact – now seemed entirely obvious. Yet, it had not been so obvious to everyone in those early days, as Joy had seen herself, not only on her Lundin team but amongst other institutional investors. Why had she been so motivated to invest when she had never taken the leap before? What had made her say 'yes'?
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REWIND

In another life, Joy had been a software engineer – a self-described "techie" from Uganda with grand ambitions.

"I wanted to build a Jumia for Uganda before Jumia existed," she reflected, referring to the African e-commerce powerhouse.

In her early twenties, she left her job to co-found an IT services company, where she became immersed in the challenging reality of entrepreneurship. She learned quickly that while she was certainly a techie, she was not an entrepreneur. Although the venture was short-lived, it shaped Joy's relationship to entrepreneurship in a few major ways. First and foremost, the experience gave her a deep respect for the work that entrepreneurs do and the difficult path they follow.

"Entrepreneurs are just extraordinary. They take on a great deal of risk and work extremely hard, but there's no guarantee of success. So I am incredibly empathetic toward them," she said.

When Joy went to business school years later, her entrepreneurship studies helped clarify the central challenge of being an entrepreneur: the need to be both flexible and exploratory, as well as organised and efficient. This tall order meant that few people could really thrive in the role of founder. It also meant that those who did possess both sensibilities could have tremendous impact in Africa in terms of driving innovation, expanding economic development, and creating social impact.

"When entrepreneurs succeed, society as a whole wins, whereas they almost single-handedly take on all the risk. So entrepreneurship is vital for this continent; entrepreneurs are the ones uniquely suited to solving the major challenges we have," she explained. "If I were a billionaire, I would create an impact fund to invest in entrepreneurs."

Joy may not have been an entrepreneur or a billionaire, but she was still committed to playing a role in furthering the entrepreneurial mission: as a mentor, a portfolio manager, and perhaps even as an angel investor.

GETTING TO "YES"

People in Kenya spent, on average, 50% of their income on FMCGs, including produce, and 96% of these transactions took place at local markets, kiosks, and informal retailers.

By the time Twiga landed on her desk at Lundin Foundation, Joy had earned an MBA and spent time piloting microloans for clean energy technologies at a financial institution, all to further her goal of supporting entrepreneurs. In her capacity as a portfolio manager at Lundin, she also acted as a mentor in many of the local business accelerators. This gave her a front-row seat in the arena of emergent tech startups – a perfect view of what the new generation of techies was up to.

In addition to focusing on non-perishable FMCGs, most startups in the e-commerce, fintech, and agritech space were targeting supermarkets – the formal retail incumbents. Meanwhile, those who were creating platforms for agribusiness tended to focus on the supply side with small-holder farmers in rural Kenya. The reason Twiga caught Joy's attention was that they were taking the opposite approach along every dimension: their focus was on the demand side with informal retailers in Kenya's cities. To Joy, having grown up in places where informal trading was the norm and a staple of daily life for most people, this emphasis was critical.

In her experience, there was a tendency for impact investors to assume that last-mile innovations were a solution for the rural poor – an answer to a problem that did not affect urban areas or the broader middle class. As Joy observed, most impact investors were either not from the African countries they were investing in, or else they lived and worked in cities where they shopped within an exclusive bubble of formal retail establishments. This created a blind spot for investors as many were not aware of the density of informal traders in their own cities who could benefit from an optimised food distribution system.

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The market was huge – an estimated 50,000 traders in Nairobi alone – and concentrated, not diffuse like the population of rural small-holders and vendors. This meant huge scaling potential for the business that could build a strong operational model. On this front, Twiga's proposed model offered not just a working solution, but a competitive edge.

Joy's experience watching startup after startup launch, flounder, and eventually swim in the Kenyan market had shown her that the East African market was extremely forgiving. A growing wave of e-commerce apps and "Uber but for food" models was emerging for FMCGs, where the barriers to entry were low. Joy observed that when startups in this space launched a reasonably good product backed by relatively stable processes, they would survive on a modest but sustainable market share without fear of being squashed by competitors, who were doing the exact same thing.

Technology alone was therefore not a competitive advantage; it was a basic requirement to compete. To truly excel, a business would need to take a more integrated approach and be far more strategic in applying technology to the right problem in the right way. Twiga understood this too. They had designed a model that incorporated technology not merely to optimise the system, but to disrupt it entirely.

Twiga's model addressed the three crucial components of the agricultural value chain: consolidation of supply, creation of a frictionless payment platform that integrated popular mobile money utilities, and cold chain logistics management to store and deliver fresh produce directly to a consolidated customer base. The efficiencies unlocked by their operation would create a positive impact on the wider economy by increasing consumer buying power and reducing post-harvest losses for farmers.

"If you're spending 55% of disposable income on food, if that number were to go down to 40% – because of gaining efficiency – what you've done is to release 15% for consumers to spend for other things," explained co-founder Peter Njonjo .

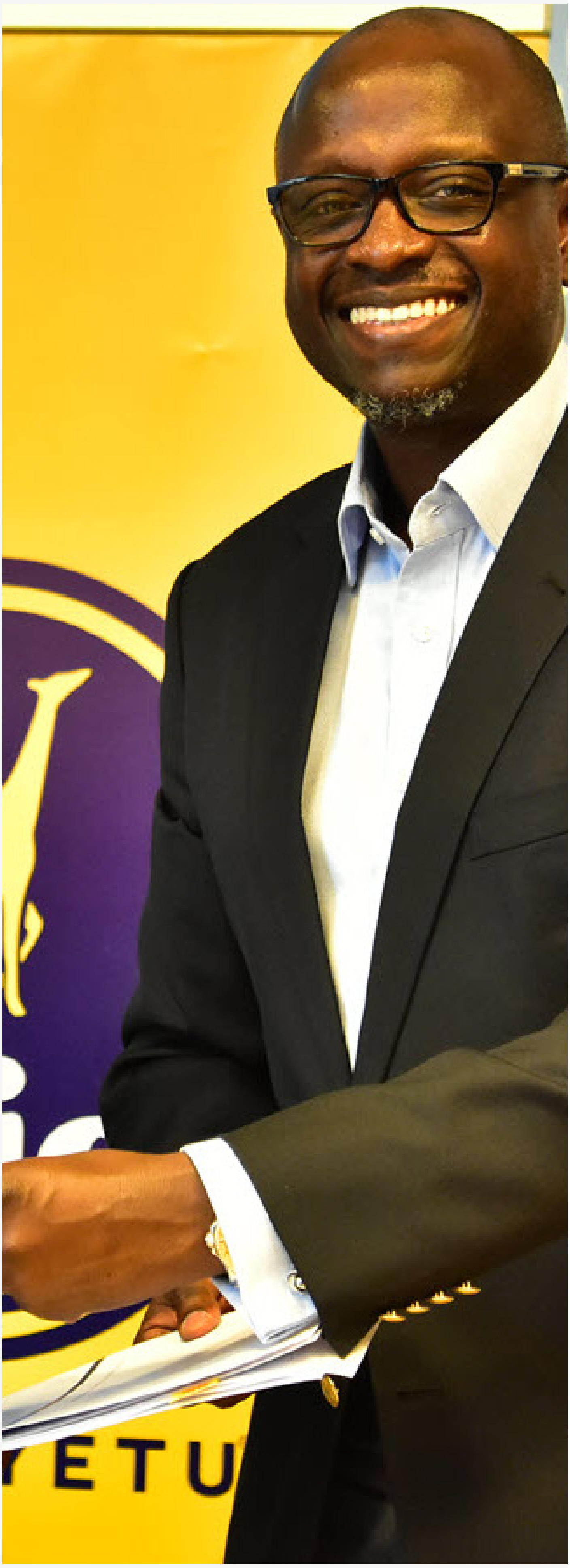
"The problem with the supply side is futures. The farmer does not know the value of their produce prior to selling it. For instance, the price of tomatoes in Nairobi was KSh36 a kilo, a month ago. The price of the same [produce today] is KSh18 owing to oversupply," said co-founder Grant Brooke . "What Twiga wants to do is use technology to fix this and make it more predictable."

Quality sourced produce

Instant, transparent, convenient, fair

Efficient Delivery

Twiga's model collapses and streamlines the food distribution value chain from sourcing to payment to delivery.



But Twiga would not stop there: once they had established themselves with produce, they planned to layer on more FMCGs and other consumer goods. They would eventually expand into other markets on the continent. They could even expand into B2C e-commerce to challenge online retailers.

No one else was proposing something so ambitious. Joy was convinced that if Twiga had the know-how and resources to move fast, they would be unchallenged in the market and could eventually become a leader in FMCG distribution. So when Lundin passed on Twiga at the pre-seed stage, it did not take her long to decide to take the leap herself. There were just two outstanding questions in her mind: whether the co-founders had the skills and character to make their model a reality and, if so, what investment strategy would be best for her.

MEET THE TEAM

Twiga entered the seed fundraising stage with a great deal of momentum. They had just won a global startup competition hosted by the 1776 Accelerator in Washington D.C. in May 2015, beating out more than 1,000 international entrepreneurs for a seed of US$250,000. 1776 gave Twiga a pre-money valuation of US$1 million and tasked them with raising the remaining US$750,000 before they would receive the funding. Twiga's founders were as new to fundraising as Joy was to angel investing, and they quickly learned that institutional funding and private equity were not options for an early venture. However, a host of family offices and impact investors in their local ecosystem were ready to back them because they understood the problem.

"It was a lot of networking. As we started talking more to commercial funds, they started referring us to the more impact-oriented funds that could be more accommodating or willing to listen to the type of idea we had," said Peter. "Those types of conversations allowed us to start building a network. From there, it was about continuous networking and referrals."

Joy was now part of this network and expanding it herself. She brought the pitch to her husband to discuss the prospect of investing jointly. They agreed that the market size and value were extremely attractive and that the co-founders seemed very capable.

The co-founders possessed a wide range of skill sets and knowledge. CEO Grant Brooke, an American, had conducted doctoral research in Kenya's informal sector and had done extensive research on agribusiness supply chains. Peter Njonjo, a Certified Public Accountant, had been working for Coca-Cola for nearly 20 years and was the president of the company's West and Central Africa business unit at the time. Here, he had overseen the distribution of products to rural villages across the continent, which had given him a wealth of knowledge about building a brand, creating demand, and building the requisite infrastructure for food distribution. And as a Kenyan, he was extremely attuned to the needs of the informal market.

"When we met the co-founders, we had a very good impression of them. We though they were very complementary, both in their personalities, but also in their management experience. Grant had been a PhD student – he was more bookish in his approach and entrepreneurial. Whereas Peter was a more seasoned manager with 20 years' experience managing large companies," she said. "Grant was soft-spoken, while Peter was more articulate and did more of the talking."

To them, it was a perfect match, but not everyone saw it this way. Another prospective investor who observed the same dynamic between the pair drew the exact opposite conclusion – that the co-founders would clash – and chose not to invest for that reason. But Joy and her husband were not dissuaded; they felt that this foreign investor simply did not sufficiently understand the context to see the value of their complementarity.

"Venture capital in Africa is different because it requires less financial engineering and a much better understanding of the market," Joy explained.

"International investors bring a lot of great value, but there are certain things that they miss which any local person would see and say, 'Oh, that works'. And this is not something that is specific to Africa. If I went to the Netherlands, I might miss out on good opportunities or make bad investments because I cannot intuitively understand the context, the cultural is different, so are the values and customer priorities."

GETTING RESOURCEFUL TO MAKE THE DEAL

“We believe we only win or succeed if the entrepreneur succeeds. And the more of a stake the entrepreneur retains in the business, the better. So as a general principle, we go for the win-win outlook rather than ‘I want the biggest share of the pie for my money’, which some investors take as a principle.”

With the question of the founders’ character and ability largely answered, there was just the small matter of strategy to afford that US$100,000 ticket, which was quite steep for Joy and her husband. The deal was for a convertible note with general terms negotiated by the lead institutional investor, which would cascade down to the individual investors.

“It was our first investment so we wanted to dip our feet in it without putting such a significant amount of money at risk,” she explained. “So, we looked to syndicate with other investors.”

They reached out to other individual investors they knew with similar risk appetites, pitched the deal to them, and introduced them to the founders to give them a better sense of the business. Eventually they secured two additional partners, with whom they established a special purpose vehicle (SPV) called Agapanthus Ltd. to split the ticket. Unfortunately, as the raise drew closer, one of the new partners was unable to mobilise fast enough, leaving Agapanthus unable to meet the minimum ticket. Still, Joy was adamant about finding a way to be part of the deal. Ultimately, the remaining three partners negotiated with the founders to invest US$75,000.

“Our approach to making that investment – and all investments we’ve made since – has been one of resourcefulness where if you’re really convinced of something and want to invest in it, to find a way to make that happen that aligns with our risk appetite,” explained Joy.

At such an early stage, when company valuation was impossible to determine, Joy found that convertible notes made more sense than equity deals as they allowed investors to postpone the valuation question until the company had financial metrics. Joy and her husband had other reasons for avoiding equity deals, which had to do with their investment philosophy and goals.

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There was little need for extensive due diligence for such an early-stage business. Joy and her husband had already examined the key issues of market and founder assessment during the initial deal screening.

Now that they were close to signing on the line, it was more a matter of confirming the market projections and current onboarding figures, gauging customer appetite for the product, and getting more familiar with the characters of the founders. Joy and her team saw to this personally by visiting the founders at the Twiga office to see the operation for themselves, reviewing the key market figures with them, and speaking with traders in the target market to confirm their interest in the product.

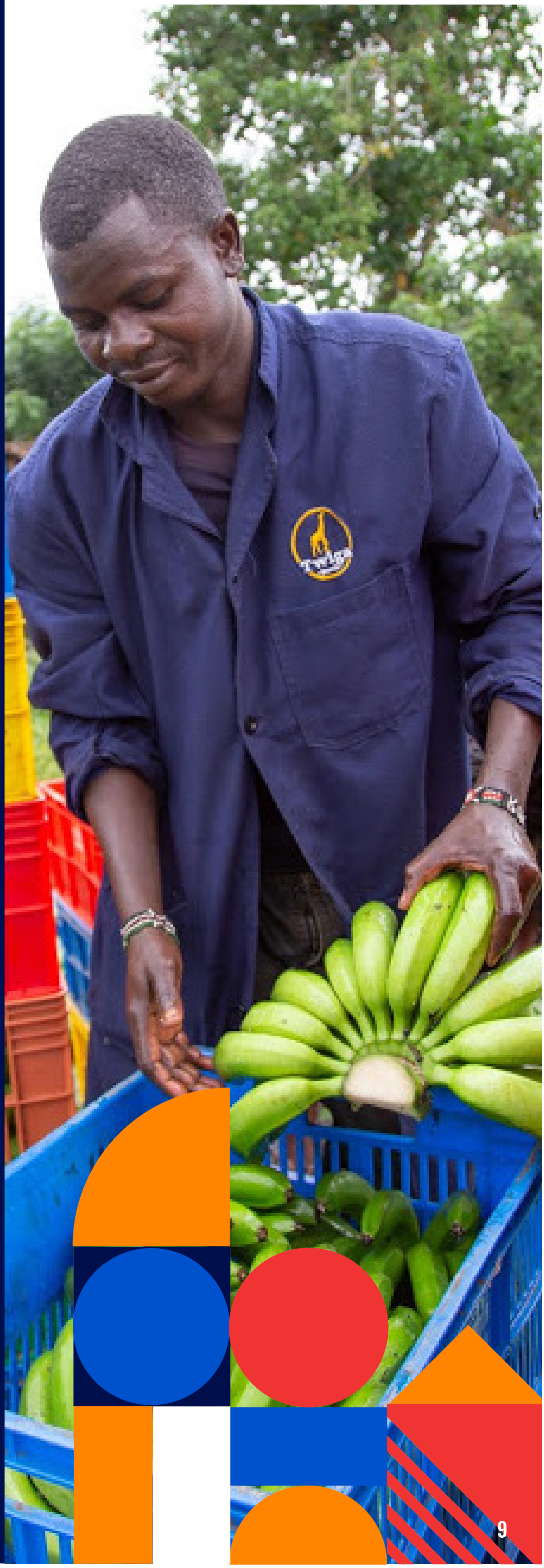
“At early venture stage, especially in this part of the continent, because there is not so much of a track record, you’re investing as much in the characters of the founders as in the business,” Joy said. “You develop some trust based on your gut feeling.”

There was one particular fact that went furthest toward earning Joy’s trust in the founders. As Peter explained:
“In 2015, we had raised some money, but not nearly enough to unlock enough capital for Twiga and so my wife and I agreed to sell our matrimonial home in Nairobi. I was working at Coca-Cola at the time and my wife had a very senior position at a Kenyan telecom company, and yet in addition to our life savings, we also needed to put our house on the market. Investors who are not familiar with emerging markets have a hard time understanding our ecosystem, but this is the reality for many African start-ups.”

By that point, Peter had invested US$500,000 of his own money in the company.

“That is a significant amount of money – it’s nothing to scoff at,” Joy said. “You don’t invest that kind of money in something you don’t believe can make a return. That’s not an affordable loss for most people. So the fact that he had such significant skin in the game, for us that showed alignment. We were both taking risks and both expecting returns.”

That was it for Joy and her team. They said yes.



LOOKING BACK, LOOKING AHEAD

"The scope for investment in agriculture is tremendous and it will be far greater than the large unicorn that Twiga has the potential to be. We should definitely celebrate the big stories like this, but on an SME level there is large need for funding, for technical assistance, for knowledge sharing between countries across the continent."

By 2018, African agritech was heating up and Twiga was on fire. Their network had grown to include 13,000 farmers and 6,000 vendors across Kenya. Their platform was integrated with M-Pesa, the dominant mobile money service in the country, for fast, frictionless payments. They were delivering produce to nearly 2,000 outlets every day and reducing post-harvest losses in Kenya from 30% to 4%, while still purchasing from farmers at 10% higher rates than traditional distributors.

All this growth meant that Twiga was also outgrowing its angels. Agapanthus did not have the funds to take the pro-rata investment rights they had eventually acquired as shareholders in subsequent venture rounds, and they did not want to see their stake diluted. Joy and her partners therefore made the decision to exit through a secondary sale to another investor during a US$10 million Series B round led by the International Finance Corporation (IFC) in late 2018, a year before the Goldman Sachs investment.

"In my view, the secondary market is growing and opportunities to exit by selling to other investors are increasing," Joy explained. "But for interesting businesses, I think in the next five to ten years there will be increasing opportunities for strategic buyouts and we may see some IPOs here in Kenya for companies who were venture stage five years ago."

Joy would not be surprised if Twiga was one of them. When Twiga secured their US$30 million Series B in 2019, they were planning to expand into West Africa. Peter was about to step into the role of CEO, leaving Coca-Cola to focus full-time on taking Twiga to the next phase of growth, while Grant moved into a non-executive role. All the while they were looking further afield to the food production and distribution system across the entire continent, which they estimated at US$300 billion a year.

In the end, Joy and her team walked away satisfied with their returns, the good relationships they had built with the team, and the knowledge that they had a small hand in nurturing something great.

"These guys, they are real visionaries and we are definitely rooting for their success and that IPO."

But she was also confident that there would be many more Twigas in the future and that a plurality of small ventures would be needed to carry agriculture forward on the continent. For her part, she would continue to seed both African agribusiness enterprises as an angel investor, and vital entrepreneurial support programs as a consultant for the IFC, which she began working for in 2018.

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DISCUSSION QUESTIONS

As a first-time angel, Joy took a risk on Twiga.

Q

How much do you think her professional background helped in assessing the deal?

And how do you think that has shaped her investment thesis going forward? How do your background and skills shape your investment theses?

As first time angels...

Q

As a first-time angel, would you be willing to lead a deal like Joy and bring in others or would you rather co-invest with more experienced angels?

If you did need to find a co-investor on a deal, what factors would you look for in a co-investor?

Angel deals typically have limited due diligence.

Q

What factors do you think were looked at in the screening phase by Joy and is there any other aspect of the deal you would consider in due diligence?

Joy talks about assessing the character of the entrepreneurs in the due diligence phase.

Q

How important do you think this is, and how would you go about a assessing the character of founders?

Tags and Keywords
Impact investment, first-time investor, investor strategy, seed funding, agritech, disruption, food distribution, e-commerce, digital marketplace

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