



ACORN  
PRIVATE EQUITY (PTY) LTD

[www.acornprivateequity.com](http://www.acornprivateequity.com)

# INVESTMENT STRATEGY

- Acorn's main focus is on investments into the management of scarce resources such as food, water and energy as well as specifically identified growing industries. The shortage of supply of these resources in Africa and South Africa is well documented and the management thereof is crucial for economic development and social upliftment. As the global population increases demand will continue to grow and supply of these resources will be under pressure.
- Acorn has managed to execute on this strategy since the launch of our funds as evidenced by our investment portfolio below. We made one investment in water management (USC), two in food processing (Lesotho Milling & Target), one in food processing and plant medicinals (Grassroots) and one in energy and waste remediation (Gecco). We continue to pursue further opportunities in these scarce resources and growing industries.

## OUR FUNDS

- Acorn currently has two active funds:
  - Acorn General Fund One
  - Acorn Venture Technology Fund One
  
- Both funds have successfully built up investment portfolios consisting of growing and exciting businesses in the industries of choice.
  
- Both funds are still accepting further investment and actively engaging promising potential portfolio companies.
  
- The Funds will close for further investment within the next 9 months.



# Acorn General Fund One

## Targeted Companies

- The fund invests in established family-owned or entrepreneurial businesses with an enterprise value of R15m - R200m and pre-tax profit of R5m - R50m at the time of investment.

## Investment Size

- The targeted investment size per transaction is R5m - R50m.

## Stage of Investment

- The fund focuses on companies in the growth and expansion stage and will not invest in early stage or start-up companies.

## Industries

- The Fund is not restricted to any particular industry. It is, however, focussed on scarce resource management and growing industries. It aims to preclude capital intensive industries such as primary agriculture, mining and real estate.

## Geography

- The Fund focuses on investments in countries in Southern Africa and mainly in South Africa.

## Minimum Investment in Fund

- R10 million



# Acorn Venture Technology Fund One

## Targeted Companies

- The fund invests in companies that have technology as one of their core attributes with an enterprise value of up to R100m and pre-tax profit of up to R25m at the time of investment.

## Investment Size

- The targeted investment size per transaction is R2m up to a maximum of R50m.

## Stage of Investment

- The fund focus on companies in the start-up, early stage, growth and expansion stage and up to 35% of the fund can be invested in venture capital opportunities.

## Industries

- The Fund is restricted to companies that have technology as one of their core attributes but no restriction applies to any particular industry.

## Geography

- The Fund focus on investments in countries in Southern Africa and mainly in South Africa.

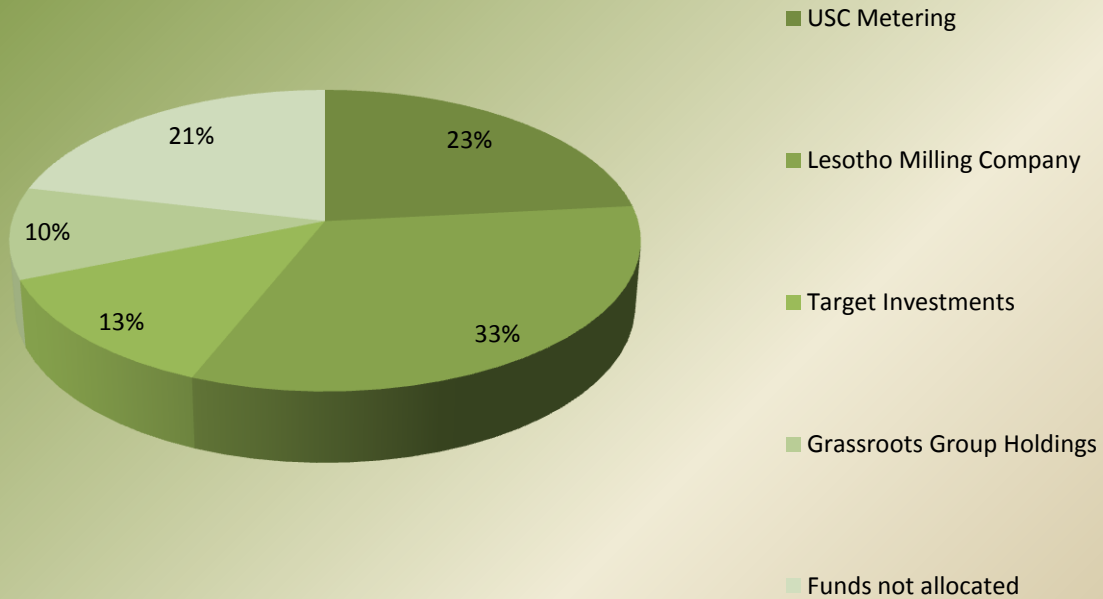
## Minimum Investment in Fund

- R2 million

# INVESTMENT PORTFOLIO

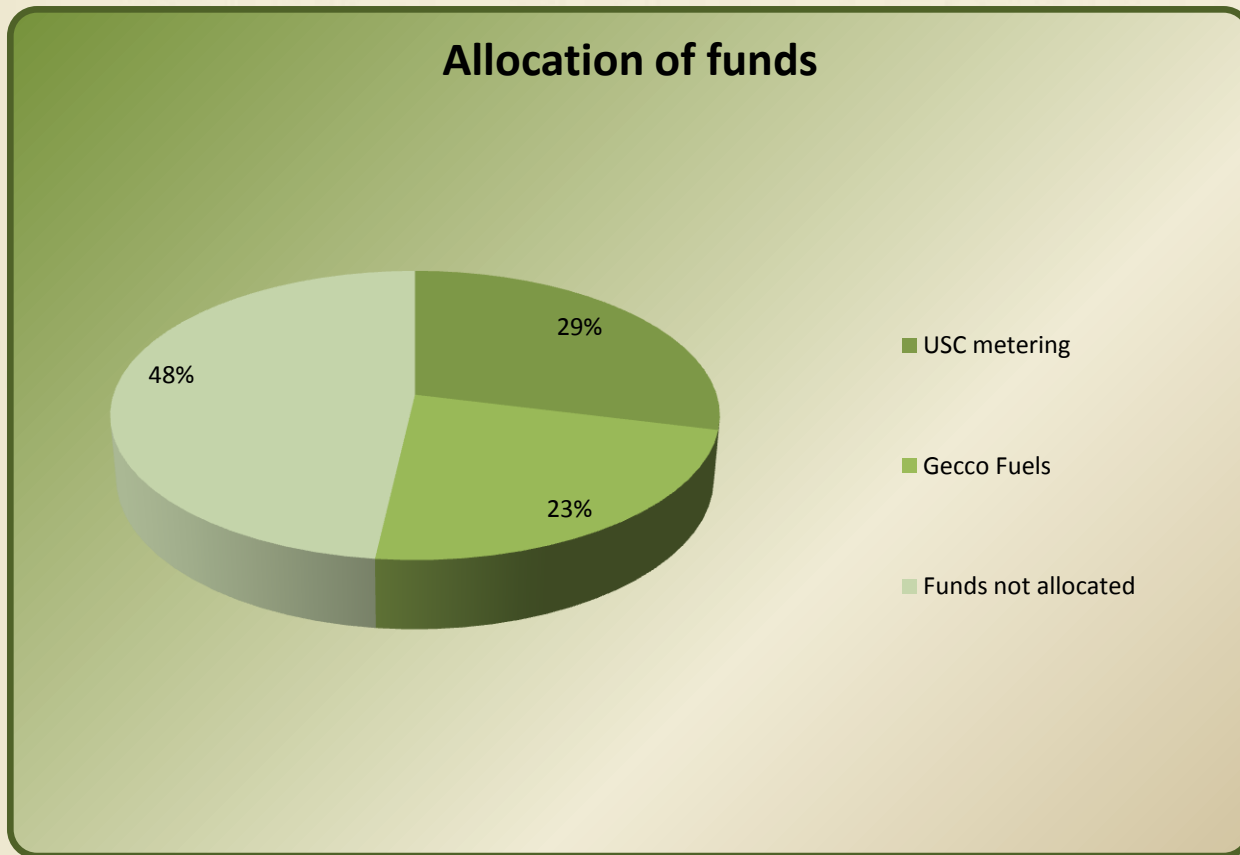
## Acorn General Fund One

### Allocation of Funds



# INVESTMENT PORTFOLIO

Acorn Venture Technology Fund





## INVESTMENT PORTFOLIO (cont'd)

### USC Metering (Pty) Ltd ([www.utility-systems.co.za](http://www.utility-systems.co.za)) - 56.66%

- ❑ USC is South Africa's leading supplier of advanced water management devices ("WMD") that control and monitor the flow of water in domestic households. These WMD's allow for the cost-effective provision of the legislated free daily water allowance to South African households as well as advanced water management by municipalities. The value proposition for the municipalities are immense and savings within the City of Cape Town and eThekweni (Durban) alone has run into the hundreds of million rand. USC has only penetrated a fraction of the market and substantial and continued growth is expected for the next 3-5 years.
- ❑ Water is one of scarcest resources in the world with only 0.5% of the global water supply available for human consumption. South Africa is amongst the most water-stressed nations on earth and studies predict further deterioration of the water supply.
- ❑ The USC product has the ability to manage and save water while improving infrastructure and much-needed service delivery of South African municipalities. There is also a clear need for the USC product in other countries and the size of the international market dwarfs the South African market.



## INVESTMENT PORTFOLIO (cont'd)

- ❑ USC already has an install base of over 250 000 units in South Africa. The total market potential equates to an estimated 12 200 000 units which presents a significant opportunity in the local market. USC recently won three municipal tenders that should add sales of approximately R150 million over the next three years at a gross margin of more than 45%
- ❑ Although no international transaction has been concluded yet, samples have been delivered and installed in several pilot projects in Middle Eastern and Eastern European countries. Several countries expressed interest and the Cypriote government plans to issue a tender for WMD's within the coming months. The tender is expected to be specific to USC's WMD and supposedly no competing product currently exists. USC has also been approached by two large multi-national corporation who requested to incorporate USC's products into their current product offering .
- ❑ Acorn acquired a 56.66% interest in USC on 15 September 2010.
- ❑ Despite a temporary slowdown in sales due to Acorn's management restructuring and the implementation of new processes, Acorn still managed to achieve an estimated IRR of 35%. USC is now optimally positioned for its expected future growth and expansion. Based on current findings it is anticipated that USC will increase its profits by more than 200% over the next 2-4 years . Given certain international and national breakthroughs, this R40mn business could grow into a billion rand business within the next 5-7 years.



## INVESTMENT PORTFOLIO (cont'd)

### Lesotho Milling Corporation – 25.1%

- ❑ Lesotho Milling's core activities include wheat and maize milling and sugar repackaging. With a vast amount of experience in the food industry, Lesotho Milling has distinguished itself as one of the major low-cost producers of top quality foods in Africa and distributors of branded food products into Lesotho and South Africa.
- ❑ Lesotho Milling produces strong cash flows and is run virtually debt-free with minimal capex and working capital commitments. Lesotho Milling has excess cash that will be utilised to acquire down-stream value added businesses such as bakeries, pie manufacturers and animal feed producers. This will shorten the value chain and increase Lesotho Milling's margins.
- ❑ Acorn acquired a 25.1% interest in Lesotho Milling on 1 September 2010 at a 28% discount to its net asset value and a sustainable dividend yield of 12%.
- ❑ Lesotho Milling's 2010 financial results exceeded expectation and management is actively pursuing growth opportunities and potential acquisitions. Lesotho Milling realised 50% higher returns than had been budgeted for the September 2010 year end. 45% of Lesotho Milling's net asset value consists of cash.



## INVESTMENT PORTFOLIO (cont'd)

### Target Investments – 25%

- ❑ Target is a wheat mill situated in Durban which is strategically located for procurement purposes and supplies a large part of Kwa-Zulu Natal.
- ❑ Acorn acquired a 25.0% interest in Target on 1 September 2010 through a purchase of 25.0% of the shareholders' loans in Target. At the date of transaction Target had a net asset value of R4.9m and realised a subsequent return on equity of 25%.
- ❑ Target's 2010 financial results exceeded management's expectations.

### Grassroots Group Holdings ([www.grassrootsgroup.co.za](http://www.grassrootsgroup.co.za)) – 34%

- ❑ Grassroots produces high quality niche, natural health and lifestyle food products and snacks based on dried fruit. This includes the production of dried fruits (both edible and decorative), fruit snacks and phytomedicinal products. Their products are in high demand by wholesalers, supermarket chains and smaller food retail outlets in the United Kingdom and Europe.
- ❑ The main drivers of the increased demand for healthy preservative-free snack foods are increased health consciousness, the trend towards premiumisation, a decline in the number of formal meals eaten and continued demand for foods-on-the-go by time-pressed consumers.

## INVESTMENT PORTFOLIO (cont'd)

- ❑ Grassroots' strength lies in their fruit drying technology, innovation and processing experience that allow them to produce niche natural (preservative-free) fruit products at very competitive prices. Grassroots is also strategically located in South Africa's largest fruit growing region that enables cost reductions and increased security of supplies.
- ❑ The business require funding for the construction of an additional production facility to increase capacity and comply with the relevant international food standards which will entrench their position in the market.
- ❑ Grassroots aim to establish a local footprint by supplying proprietary branded fruit products to local food retailers. Opportunities are also pursued to increase current market share in the UK and Europe and enter the USA and Far East markets.
- ❑ Management owns a 28.5% interest in Grassroots.
- ❑ Acorn acquired a 34% interest in Grassroots on 24 February 2011 at a 30% discount to net asset value with an expected IRR in excess of 25%.

## INVESTMENT PORTFOLIO (cont'd)

### Gecco Holdings ([www.geccoholdings.com](http://www.geccoholdings.com)) – 11% (Technology Fund)

- ❑ Gecco is a VC company that will produce high quality light fuel oils and other value added products from the refining of waste materials such as automotive waste oils, waste plastics, used motor tyres and other waste materials through the use of patented technology.
- ❑ The patented technology is owned by Gecco and registered in South Africa, UK, Europe, the United States of America and Canada. Due to the unique process used by the Gecco patent, waste materials can be refined and converted to high-value products at 48% of the cost of competing technologies.
- ❑ The pressure on energy supply, Eskom price increases and government's intended spend on alternative energy sources cements the advantages of Gecco.
- ❑ The first Gecco plant will be capable of producing 9 million litres of light fuel oil per annum at gross margins of more than 250%. The product is readily marketable to several industries.

## INVESTMENT PORTFOLIO (cont'd)

- Although the investment is pre-revenue, the technology has been proven through the pilot plant and our due diligence process has indicated that both the financial and technical aspects of the business are sound. Acorn is cautiously optimistic that Gecco can indeed become a leading refiner and technology provider to the multi-billion dollar waste remediation, resource management and energy management industries globally.
- Acorn acquired an 11% stake in Gecco on 30 November 2010 and entered into a pooling arrangement with co-investors that represents 45% of the company and controls the board of directors.

# Closing of General Fund One

- ❑ The Acorn General Fund will remain open for new investors until approximately September 2011, where after we will not accept further investors in this fund.
- ❑ Based on the current valuations, new investors have an opportunity to buy into the portfolio at a 22% discount compared to the existing investors. This temporary price disparity is caused by the terms of the fund's partnership agreement whereby new investors can buy into the existing portfolio for a pre-determined period at a pre-determined price increase.
- ❑ Acorn aims to conclude one further transaction by June, the size of which will exceed the current capital available for deployment. As such, Acorn will need to procure additional investors or syndicate.

The economic landscape within Southern Africa has created opportunities within the mid-cap private equity industry that have seldom been experienced. The time to invest is now, while the power lies in the hands of the investor.