

TLG—PROFITS WITH A CONSCIENCE

Most private equity funds operating in Africa are focused on large investments and are reluctant to look beyond the commercial outcomes. But a new fund puts ethical investment at the core of its business – without having to sacrifice profits. **STEPHEN WILLIAMS** reports.

TLG is a new private equity fund dedicated to frontier markets and intent on underpinning Africa's development through investments with an ethical dimension.

Zain Latif, head of the new company, has been involved with African investments for the last six years. He was with HSBC, Merrill Lynch and Goldman Sachs before founding TLG in 2009.

By early this year (2010) TLG expects to have completed three major deals in the frontier markets. "We're a frontier market fund with a particular focus on Africa, where I believe the greatest growth will be," Latif explains. "We've also expanded our horizons a little, to diversify risk, into Southeast and South Asia, which is very attractive."

The first deal that TLG did was in Uganda, with Quality Chemical Industries Limited (QCIL). "This is probably the most exciting deal I have ever been involved with," says Latif.

TLG partnered with the Indian company Cipla, which manufactures the majority of the world's generic HIV/Aids and malaria drugs. It has developed a triple therapy antiretroviral treatment (Zidovudine, Lamivudine and Nevirapine fixed-dose combination) for HIV/Aids patients. According to Cipla, while it costs \$12,000 a year to treat an HIV/Aids patient in Europe or the US with branded antiretrovirals, the generic 'copies' that Cipla makes cost just \$150-200 a year.

The World Trade Organisation (WTO) and World Health Organisation (WHO) got together and agreed to support the manufacturing of generics in less-developed countries. Cipla partnered with Quality Chemicals Limited, a local pharmaceutical distribution company, to form QCIL and built a \$32m plant in Luzira, about 10km from Uganda's capital Kampala. The plant can produce two million triple-therapy combination Duovir-N tablets each eight-hour-shift day, or 600m tablets a year.

"There is not a single pharmaceutical manufacturing facility that is WHO pre-qualified in middle Africa [i.e. sub-Saharan Africa outside of South Africa]," Latif says, "and without WHO approval, QCIL cannot begin to tender for contracts from international non-governmental organisations such as the Global Fund to fight Aids, Tuberculosis and Malaria or the US President's Emergency Plan for Aids Relief."

The Ugandan plant is what is known as Current Good Manufacturing Practice Regulations (cGMPs) compliant, and has been given manufacturing and marketing authorisation by Uganda's National Drug Authority, the International Committee of the Red Cross and the Drugs for Neglected Diseases Initiative.

"We bought a stake in QCIL last summer," Latif says. "It was our first investment, and we see our role as being to provide high-level financial support and to get the



ABOVE: UGANDA'S PRESIDENT MUSEVENI VISITS THE QCIL FACTORY NEAR KAMPALA TO SEE THE PLANT'S PRODUCTION OF LIFE-SAVING PHARMACEUTICALS. ZAIN LATIF (LEFT) OF TLG CAPITAL.



message out that even if there are millions of HIV/Aids infections and 300 people die each day in Uganda from malaria, there is hope. By helping to develop an African solution for an African problem, we can tackle these two diseases by ensuring that affordable, high-quality drugs are made widely available across Africa.”

The two drugs – namely, antiretrovirals for HIV/Aids, and artemisinin compound therapies (ACTs) to treat malaria – are now being manufactured to First World standards at Third World prices in Uganda. It is a good example of how private equity can empower a commercial initiative to underpin Africa’s development.

African-style private equity

Latif believes that unlike the bigger private equity funds operating in Africa, there is space for smaller, more nimble funds focused on the SME sector.

“You have a number of major Africa funds but they tend to focus on deals of \$20m minimum. That restricts them to a handful of opportunities and companies, and they are all competing amongst themselves for those deals, so you are never going to get the best opportunities.

“Another thing I am very adamant about is that our capital is not restricted. A lot of funds have capital that restricts them to investing in pure equity, but in my opinion, equity investments in Africa are very difficult as it is hard to plan for an exit strategy.”

So TLG’s strategy is to protect its downside but be able to participate in the future growth of their portfolio companies through instruments like convertible preferred stock. “We target a sustainable income stream by investing in cash-generative businesses. That’s a different sort of investment strategy where we focus across the capital structure of a company,” he explains.

Latif believes that the only way that Africa is going to develop its economies is by becoming commercially

focused yet having an ethical and socially responsible investment plan.

“One of the things I love about TLG’s second investment, a cancer treatment facility in Ghana, is that it will employ international doctors only at the beginning,” he says. “In Africa there is a perception that if it’s ‘foreign’, it is ‘quality’. But our fees will be almost 50% less than at any hospital in Europe, the US or South Africa. We will also gradually attract Ghanaian doctors to return to the country to work with us and give back to society.”

The cancer clinic is due to begin operations this year. TLG is the lead investor along with SwedFund and Fidelity Capital.

Latif points out that TGL does not specialise in any particular sector and that it is just coincidence that its first two investments are in Africa’s healthcare industries.

Just as the Ghana clinic will encourage African professionals to return to work in the continent, the QCIL investment in Uganda attracts Ugandan scientists and pharmacists – who have been forced to relocate overseas in order to pursue their professions – to return to the country.

TLG, Latif says, is still maturing, “but we are committed to frontier markets, particularly in Africa. Though we are commercially focused, we are determined to follow a socially and ethically responsible deployment of private equity, believing that this strategy represents the best way to garner long-term returns.”

He says that QCIL is one of the most promising opportunities in the East African region. “The production of key drugs combined with the strength of management has convinced us of the long-term potential of the plant.

“What I am particular proud of with this venture in Uganda is that it is proving to be the ideal platform for the transmigration of technology from the developed world to Africa.” ■