Bridging the VC-PE Gap

A Collaborative Approach to Strengthening Southern Africa's Investment Ecosystem

By Tyrone Moodley, Principal at HAVAÍC,
Huns Biltoo, Partner at KPMG and
Lauren Tuchman, Senior Manager at KPMG

Southern Africa's investment landscape is evolving. In 2024, private equity (PE) fundraising surged to a 13-year high, underscoring growing investor confidence across key sectors like energy, infrastructure, technology and financial services. Simultaneously, the venture capital (VC) ecosystem continued to fuel early-stage innovation, building the next generation of high-growth companies. Yet, a persistent challenge remains: the transition from VC-backed growth to PE scalability is often fragmented, marked by misaligned expectations and valuation methodologies. This is in contrast with global trends where the lines between PE and VC are blurring, particularly in later stage funding rounds and when it comes to investments in the tech sector.

Recognising this gap, HAVAÍC, KPMG and Fireball Capital partnered to convene an investor workshop that brought together local VC and PE stakeholders, as well as other contributors, to explore how these two investment spheres can work together more effectively. The discussion revealed that while these investors often operate with different risk appetites and return expectations, alignment is not only possible—it is essential for the long-term success of the Southern African VC and PE markets.

In the interactive networking session, HAVAÍC, KPMG and Fireball Capital (with their extensive expertise in venture, private markets, financial advisory and transaction services) had inputs from investment sector professionals to unpack the challenges around the gap to be bridged between VC and PE.

The workshop also provided relevant insights into how businesses can better position themselves for PE investment, which not only benefits VC players, but the PE market as well. Common themes which emerged indicate that the some of the main factors contributing are valuation mismatches, differing capital structures, and operational expectations:

Navigating the VC-PE Continuum

A thriving PE sector has the ability to provide later stage capital to further fuel VC-backed companies and as well as a natural exit for early VC investments which have sufficiently matured. However, historically, PE firms have not traditionally preferred businesses that originated in the VC space.

Bridging Valuation Gaps

- VCs prioritise revenue multiples, emphasising early stage high growth potential, while PE firms focus on EBITDA-based valuations, seeking operational profitability.
- There is a need for industry led standardised valuation methodologies, helping VC-backed businesses better prepare for PE investors' requirements and reduce asymmetry of information between the valuation bridge and the equity story;.
- A clear takeaway was the necessity for startups to evolve with new financial structuring as they scale up, balancing **hypergrowth with sustainable profitability while de-risking capital invested.**
- There is a need for VC fund managers to assist and guide their portfolio companies on how to manage the future stages of post-VC accordingly.

Operational Readiness & Strategic Positioning

- Unlike VCs, who invest in companies with the expectation of rapid scaling up, PE firms typically seek established, de-risked businesses with defined value drivers and returns in need of corporatisation and professionalisation.
- Industry participants emphasized the importance of clean capital structures, applying intellectual property (IP) and ownership considerations, financial reporting discipline and embedding the fundamentals of good governance. There are all elements that significantly impact a startup's ability to attract PE investment.
- As previously noted, fund managers need to play a key role in ensuring these building blocks are put in place or at least provided for in the growth story.

Technology as a Strategic Asset

- Southern African tech startups must be able to prove their innovations are globally competitive, globally scalable or can be aggregated into a global player's market strategy.
- A case study on RapidDeploy, a HAVAÍC-backed startup, was shared with participants exemplifying this transition. The business, which started in South Africa to provide a solution to a local problem, now serves over 1 700 emergency 911 communication centers across 23 U.S. states.
- Having bridged the capital raising gap by securing $90 million in funding as well as high-profile partners (including Samsung Ventures, General Motors, and Greylock), RapidDeploy emerged as a leading innovator in public safety technology and emergency response solutions to improve outcomes and save lives.

Building an Integrated Investment Ecosystem

A crucial theme throughout the discussion was the need for more structured collaboration between VC and PE investors locally in order for opportunities to transition locally rather than exclusively to global counterparts. The reality is that these two funding models are not in competition, but rather form part of a broader investment cycle, where each plays a distinct yet complementary role.

Key takeaways included:

1 Encouraging Open Dialogue

One of the biggest barriers to VC-PE collaboration is misperceptions about risk, returns and governance structures.

Encouraging collaboration across funding stages, ensuring capital is deployed or raised within the South African capital markets ecosystem will foster sustainable growth. This will help reduce friction , develop the capital markets and unlock new investment opportunities.

2 Supporting Founders Beyond Early-Stage Growth

Too often, founders, and their investors, focus on securing early-stage capital without considering how their company will evolve into a PE-attractive business.

The importance of education at all stages of the investment lifecycle, ensuring startups structure their businesses in a way that remains attractive to investors across different funding stages. This includes, for example, embedding good governance early on and strategically considering where to be domiciled.

3 Creating More Institutional Depth in the VC Ecosystem

The need to build a more mature funding landscape, ensuring companies can graduate smoothly from one investment phase to the next without unnecessary dilution or funding roadblocks.

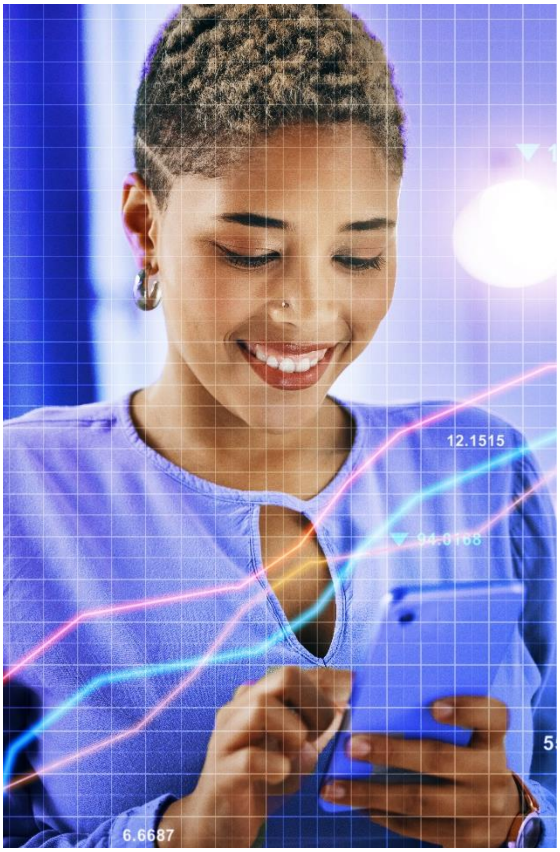
KPMG

The Road Ahead: A Collaborative Approach to Growth

The VC-PE gap is not an insurmountable challenge, but an opportunity—one that requires proactive engagement from all stakeholders. Advisors such as KPMG, with expertise in financial structuring, business valuation, and transaction advisory, are instrumental in helping businesses prepare for later-stage investment. Meanwhile, VC firms like HAVAÍC have a pivotal role to play as they continue to support startups from their earliest days, ensuring they build globally scalable, investment-ready businesses, in line with the goals set by the formation of Fireball's Fund of Funds. The industry as a whole needs to continue to professionalise, if it's to maximise the opportunity in front of it.

To truly unlock the full potential of South Africa's investment landscape, collaboration is key. A key takeaway from the event, beyond the specific insights on the discussion topic, was fostering ongoing conversations, aligning methodologies, and creating a shared vision for growth. The KPMG network and investment professionals can re-enforce robust collaboration in the Southern African private investment community in order to create an environment in which local startups are support not to just survive, but to thrive and mature from a young business to a meaningful company, both locally and on the global stage.

In an effort to support such collaboration, similar investor networking and workshop sessions will be hosted regularly in 2025 (each unpacking a different theme) – creating an exclusive private investment community in the regional context.



Contact us

Boitumelo Ngutshane
Partner, Head of Deal Advisory and Transaction Services, KPMG
Boitumelo.ngushane@kpmg.co.za

Ian Lessem
Managing Partner, HAVAIC

Justin James
Head of Investments, Fireball Capital

kpmg.com/socialmedia