

IMPACT SPECIAL: PROFITING WITH PURPOSE



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LeapFrog offers its strategic investors a safer way to get to know the emerging consumer story.

By **Rod James** - 1 November 2017

The barriers to tapping into the growth of emerging markets are considerable, even to the savviest operators. In June 2015 Nestlé slashed its African workforce by 15 percent after it failed to meet the ambitious revenue targets set in 2008. Two chief reasons were the slower-than-expected growth of the consumer class and a host of family-run incumbents whose local expertise made them difficult to usurp.

LeapFrog Investments is known primarily as an impact investor, applying a “profit with purpose” model to its investments in the emerging financial services and healthcare sectors. But it has also developed a reputation for giving its investors a taste of the emerging consumer story without having to expose themselves completely or prematurely.

The firm generally takes sub-\$50 million minority or majority positions in companies, then builds them to the point where they become attractive to strategic investors. In 2013, it sold its stake in Ghanaian insurer Express Life to one of its cornerstone investors, Prudential, a model that it hopes to replicate across its investor base.

It runs programmes such as the Insurance Innovation Circle, where LPs can learn about the companies in which LeapFrog invests and the practicalities of doing business. Investors can ask about the big issues, such as how to deal with corruption, and arm themselves with the knowledge to make their own move into the market. “They don’t get special rights, like first offer on a portfolio company, but they get to see the evolution of companies over time,” says LeapFrog co-founder and partner Jim Roth. “It’s much easier to buy something if you see it evolve. You get to understand how management thinks. ‘Five years ago they faced a difficulty and this is how they reacted to it; that’s the kind of reaction I want to see from a company I’d want to buy.’” Like any other fund, decent returns are still important. Although Roth will not be drawn on the numbers, he says LeapFrog intends always to beat the public market and to match its regional rivals.

“We focus on standard commercial private equity returns,” he says. “And that’s really what’s central to us... Whatever the other big private equity firms that work in emerging markets are trying to get – whether Abraaj, Actis, KKR – we’re chasing the same returns.”

