Manufacturing Africa

UK International Development
Partnership | Progress | Prosperity

Exit Considerations Every Founder Should Discuss Early

How to Forward-plan Investors Exiting the Business for a Mutual Gain

UKaid
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www.manufacturingafrica.org

Manufacturing Africa programme

Enabling investment and the creation of jobs

Overview

Programme goal

Attract **£1.9 billion** of foreign direct investment (FDI) and creation of **99,000 jobs**

Focus sector

Manufacturing and manufacturing enablers

Implementing consortium

McKinsey & Company, BDO, TechnoServe, Steward Redqueen and others

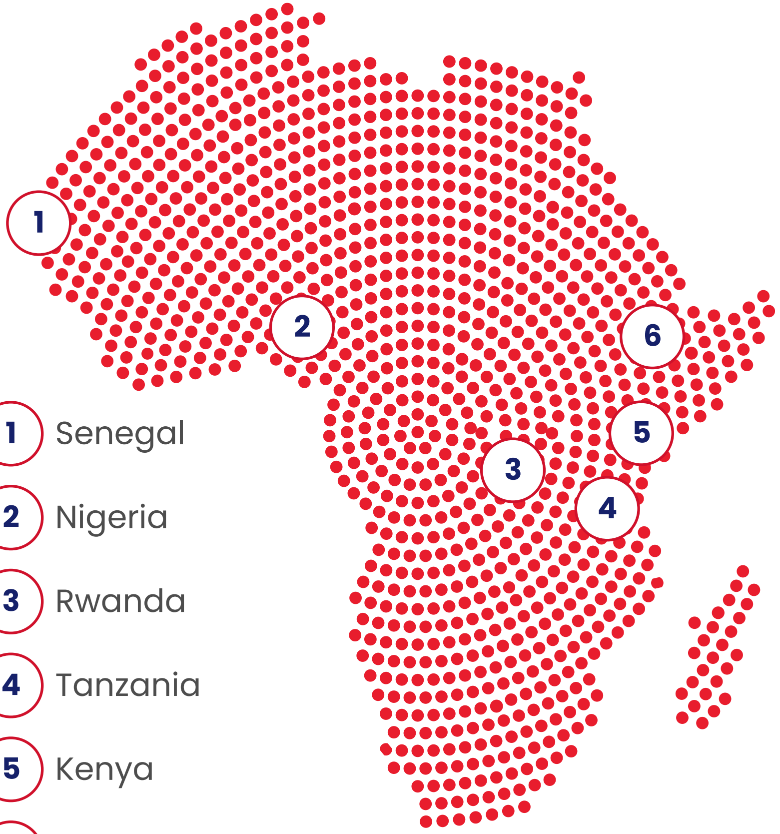
Funding

UK Government through the **Foreign, Commonwealth and Development Office (FCDO)**

Duration

7 Years (2019-2026)

Focus Countries



1. Senegal
2. Nigeria
3. Rwanda
4. Tanzania
5. Kenya
6. Ethiopia

Addressing two of Africa's Key Challenges

A growing Labour Force

1B | Working population increase by 2050

2x | Urban population growth by 2050

18M | New jobs needed a year until 2035

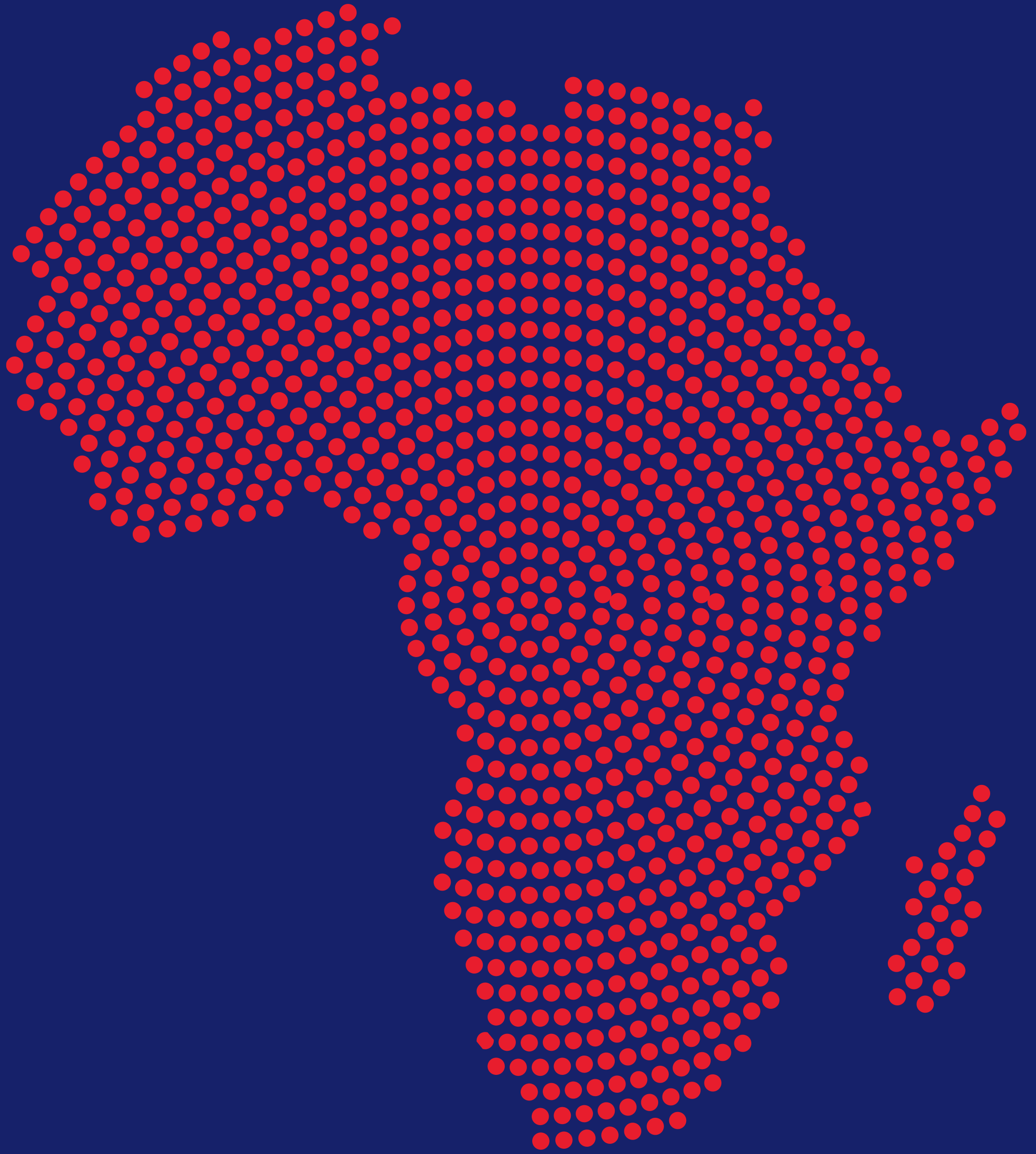
An underdeveloped Manufacturing Sector

Low manufacturing productivity

Struggle to move into **high-value** services

01.

Overview of Exits



What are exits?

If you raise equity capital from a financial investor, the investor will have to eventually exit the business and realise the cash return on their investment

Exits are **how investors realise the cash return on their investment**, while founders gain full control of the business.

An exit is a **planned milestone** in a typical investment process. It is not a failure, rather a demonstration of a successful investment.

Exits are ordinarily **discussed before a deal is consummated** so there is a clear strategy for both investor and founder on the exit route and a rough timeline to exit.

Exits can be done partially or in full, and they can be investor-led or founder-led.

Why are exits important?

A clear Exit strategy at the pre-investment stage aligns investors and founders, sharing the same time horizons and reducing future conflict

For investors

- Investors can only realise the cash return on their investment when they exit
- Investors typically have:
  - Limited fund lifecycles (around 7-10 years).
  - Obligations to return capital to their own investors.
- Exits enable investors to:
  - Recycle capital into other investments.
  - Justify taking investment risk.
  - Prove the viability of the ecosystem and raise additional funds from their own investors which they can deploy in other businesses.

For founders

- Exits allow founders to realise a cash return from their investment in the business.
- Exits align founders and investors, reducing future conflict and protecting founder influence.
- Exit expectations of the founders will influence the business's
  - Capital structure.
  - Governance and reporting.
  - Business continuity beyond the founder.
  - Future growth opportunities and build a business that is transferable or scalable.
- Strong exit credibility can lead to faster fundraising.

If an investor can't see a credible exit path, they may not invest, regardless of the business's traction.

Common exit routes

There are several exit routes, with the most common in African markets being a sale to a local, regional, or international strategic buyer

Strategic sale

» Sale of the business to a local, regional, or international corporate company.

» Most common exit strategy for financial investors in Africa.

» Often driven by market access, licenses, or distribution.

Secondary sale

» Sale of the business to another financial investor (e.g. Private Equity or Impact fund).

» Early investors will typically sell to later-stage investors.

» Increasingly common in growth-stage African businesses.

Management or founder buyout

» Founders or management buy the investors' shares.

» Often funded using debt (leveraged buyout) and the founders' own cash (equity).

IPO

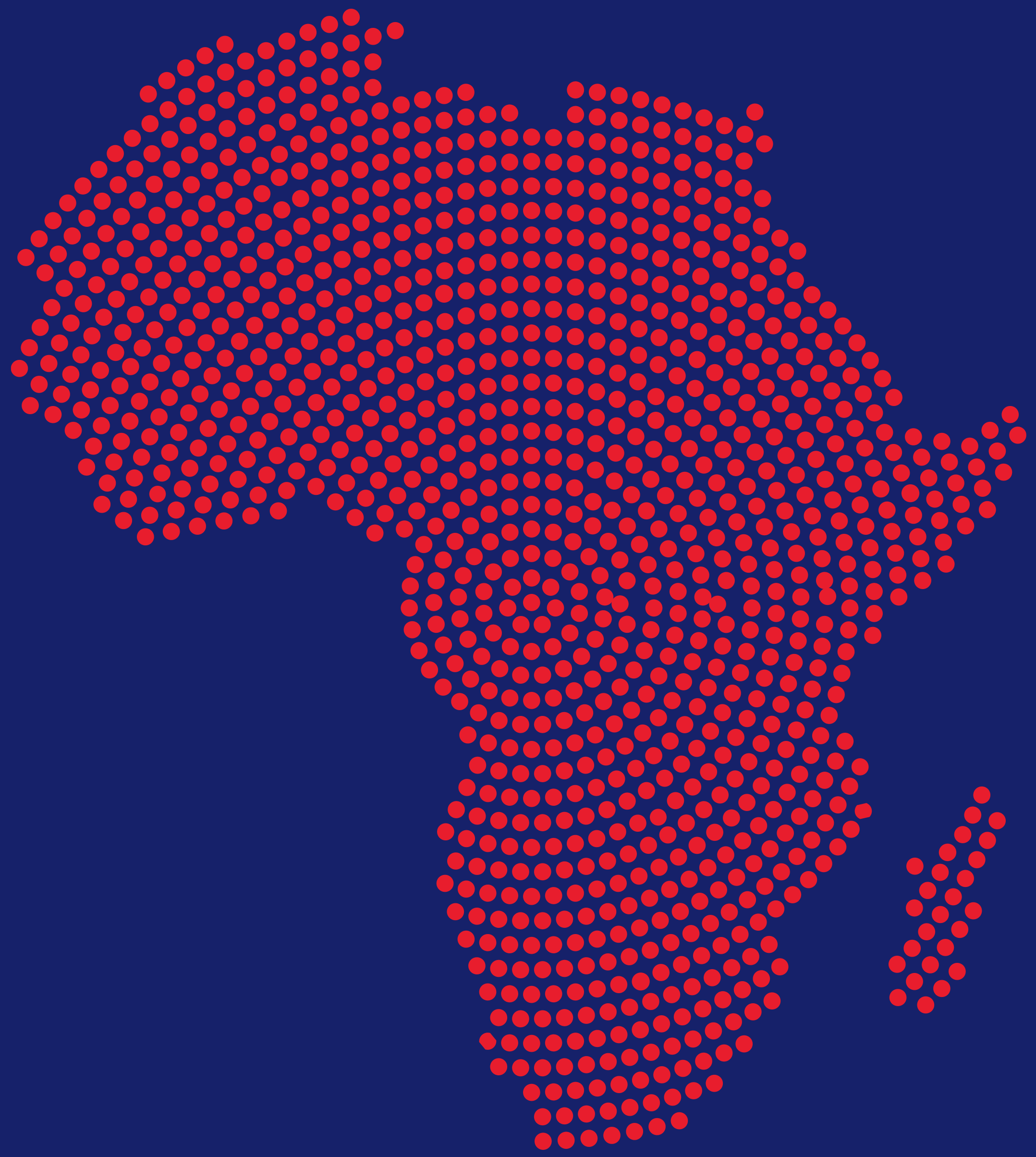
» Sale of shares in the business through the public stock markets.

» Least common option in Africa in general, but possible in selected markets.

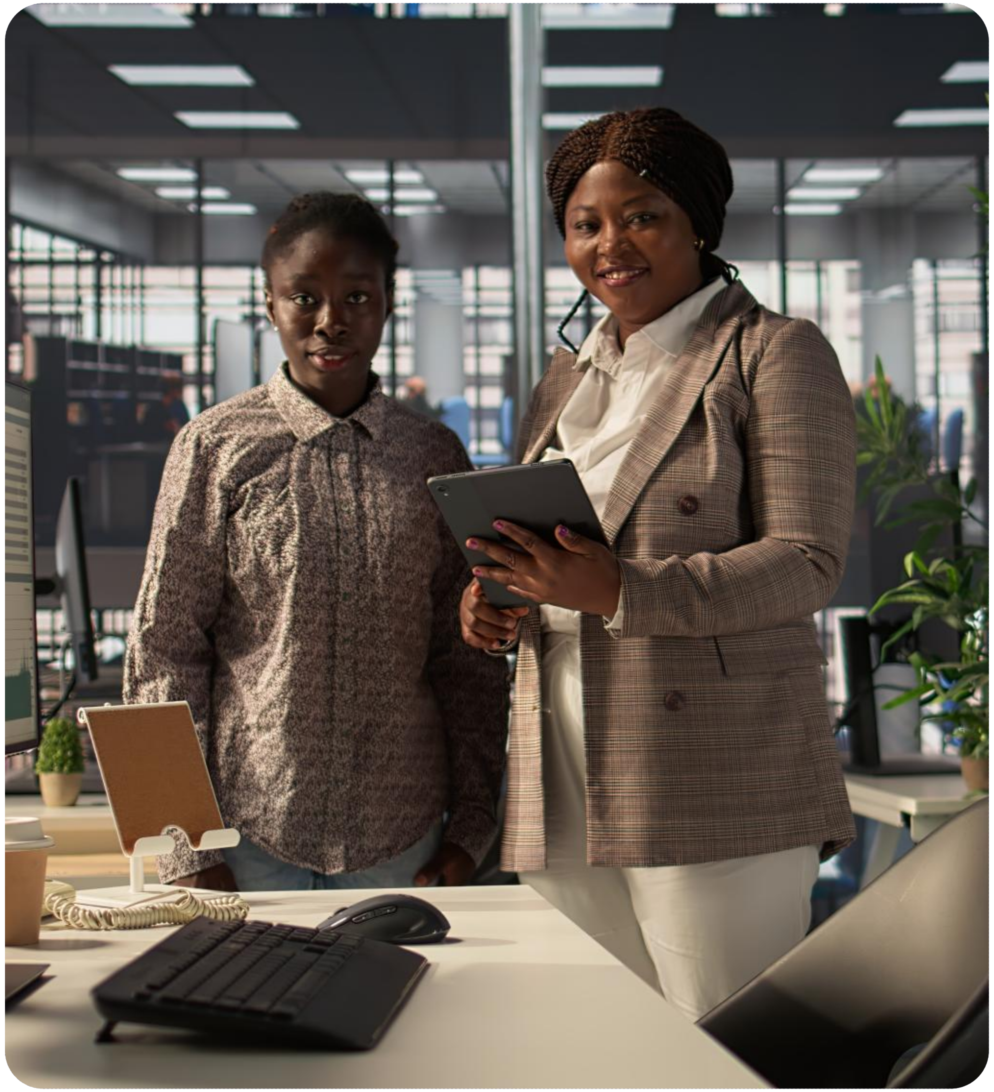
» Requires scale, governance, and market readiness.

02.

Pre-Deal Exit Considerations for Founders



Pre-deal exit considerations for founders



Time horizon

What time horizon would make sense for you to achieve your strategic plan and add value to the business before an Exit?

Preferred exit routes

What's your vision for the business and what Exit route would help you achieve it?

Deal structuring

What are the most appropriate investment instruments that would make an Exit easier?

Founder protections

Safeguarding founder outcomes and ensuring founders are not forced into sub-optimal exits too early.

Legal matters

What appropriate legal provisions need to be in place now that can impact a future Exit?

A. Time horizon

What time horizon would make sense for you to achieve your strategic plan and add value to the business before an Exit?

What is the Investor's fund life (e.g. 5, 7, 10+ years?) and how does that match your ambition for the business?

» This will influence the type of investor you should be targeting for your business (short / medium / long-term investors).

» Manufacturing businesses typically require longer hold periods for value creation .

What are the founders' personal goals: when do you want partial or full liquidity, not just what the business needs.

Build in flexibility on the time horizon as markets can be cyclical and influenced by FX, macro conditions, and buyer appetite.

B. Preferred exit routes

What's your vision for the business and what Exit route would help you achieve it?

Who is the most realistic buyer type for the business?

» Do you see the business being acquired by a bigger regional or international corporate company in your industry, or do you prefer to retain long term ownership and control?

» Do you already have a secondary investor you are targeting for the time of Exit? What would they like to see and how can you position your business to be ready for their investment in the exit time horizon?

Control implications: Different exit routes imply different levels of founder involvement post-exit.

Geographic reach: Local vs regional vs international buyers may value the business differently.

Sector dynamics: Some sectors attract corporates; others rely on secondaries or buybacks.

Build flexibility: Avoid over-structuring for a single exit route too early unless it is highly probable.

C. Deal structuring

What are the most appropriate investment instruments that would make an Exit easier?

- **Share classes and preferences:** Liquidation preferences and participation rights directly affect founder proceeds at exit.
- **Innovative investment instruments:** Convertibles and Equity derivatives (equity convertible into debt; Use of put and call options).
- **Minority vs control dynamics:** Understand how much influence investors will have over exit timing and route.
- **Earn-outs and deferred consideration:** These can bridge valuation gaps but extend founder risk post-exit.

D. Founder protections

Safeguarding founder outcomes and ensuring founders are not forced into sub-optimal exits too early

Clarify:

- Whether founders can sell shares alongside investors in future transactions (e.g. drag-along / tag-along rights).
- What happens if founders want to exit first?
- What would happen if the founders stay but investors exit?

Leaver provisions: Understand how exits, vesting, or value are treated if a founder steps back operationally.

Governance control: A balanced and appropriate board structure and voting rights should be in place as these determine who can control when and how exits occur.

E. Legal matters

What appropriate legal provisions need to be in place now that can impact a future Exit?

- **Jurisdiction:** Where should the Holding Company be domiciled? The location of the HoldCo can impact exit feasibility and exit route (e.g. M&A or IPO).
- **Legal documentation:** Shareholder agreement clarity to avoid any potential disputes in the future, e.g. on IP and asset ownership.

Summary of key lessons for founders

- **Plan early:** Exit outcomes are shaped at entry, not at the point of sale.
- **Build exit relationships** with potential strategic buyers and future investors right from the start, not just at the exit process.
- **Make sure all shareholders aligned:** Founders, investors, and boards should share expectations on exit timing and routes from the onset.
- **Protect optionality:** Structure the business to allow multiple exit paths, not just one.
- **Institutionalize the business:** Strong governance, management depth, and reporting increase exit readiness.
- **Understand the Exit terms** in shareholder agreements at the time of initial investment.
- **Build contingencies** for market, FX, and timing risks common in African markets.

Thank You For Your Attention And Participation!