

ADC African Development Corporation GmbH & Co. KGaA

A Company – Talk with: Olaf Meier, CFO

“Growth has only just begun – It’s still a good time for investors to get in.”

Date: January 27, 2011

Share statistics:

Industry: Financial Service Provider
Segment: Entry Standard
ISIN: DE000A1E8NW9
Code: AZC.GR

Current Price: 12, 10 €
Number of shares: 7, 65 Mio.
Market Cap.: 92, 57 Mio. €

Shareholder structure:

Institutional Investors
Home and foreign country: 48 %
Freefloat: 52 %

Coverage:

Silvia Quandt Research GmbH
November 2010
IPO

Financial Calendar:

5 April 2011 Release Financial Figures for 2010
3 May 2011 Annual Financial Report 2010
24 May 2011 Release Q1 2011 Results
7 June 2011 Annual General Meeting
23 August 2011 Release Q2 2011 Results
15 November 2011 Release Q3 2011 Results

mainvestor Company - Talk

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Company Talk

Highlights

- “We offer investors access to frontier markets in Sub-Saharan Africa – unique up till now”
- “Our target industries, insurance and banking, are still underdeveloped and offer huge catch-up potential”
- “Even our newest investment, RHEAL, is growing very dynamically, with 40 % a year”
- “Returns and growth are generally significantly higher in frontier markets than in developed ones”
- “Our target is annual returns on invested capital well into the double digits”
- “Over the coming months, we are working towards switching over to the Prime Standard”
- “Our medium-term goal is to be included in the SDAX”
- “We want to outperform analysts’ projections”
- “In 2011, we are planning on up to 3 more investments”



ADC AFRICAN DEVELOPMENT CORPORATION

ADC African Development Corporation GmbH & Co. KGaA

Background:

ADC African Development Corporation (ADC), ISIN DE000A1E8NW9, was founded in September 2007 and was very quickly able to position itself as one of the leading investors in banks and insurers in the exceptionally strong growth markets of Sub-Saharan Africa. The company's success is based in particular on a locally-based management team, which furthers the banks' development in accordance with international best practices and increases profits by structuring them through the implementation of standard international processes.

As the Number 2 Emerging Markets fund manager worldwide, ADC – particularly due to its strong operating approach, combined with adherence to the highest ethical standards – was integrated into the insurance solution of the Multilateral Investment Guarantee Agency (“MIGA”), part of the World Bank Group. This insurance offers protection against various political risks, thereby hedging, in particular, against the risk of political upheavals.

The financial services company, which belongs to Frankfurt's Angermayer, Brumm & Lange Group, currently consists of two banks in Equatorial Guinea and Zimbabwe, two providers of electronic payment systems in Rwanda and South Africa, and one insurance company in Kenya. ADC's shares have been listed on the Frankfurt Stock Exchange since 14 December 2010.

mainvestor Company Talk spoke with Olaf Meier, CFO of ADC African Development Corporation.

mainvestor: Mr Meier, ADC has been an exchange-listed company for a good 4 weeks now. Are you happy with the IPO?

Olaf Meier: Very happy. During the book-building period, we received very positive feedback regarding our strategy and our positioning. This then led to very high demand for ADC shares, including internationally. We were well oversubscribed, successfully placing 4 million new shares from a capital increase, and thereby managed to take in EUR 43 million for further growth. And we did this at a time when a lot of other IPO's were being cancelled. That speaks to the quality both of ADC and the company that accompanied us through the IPO, Silvia Quandt & Cie. AG.

mainvestor: What, in your view, are the main reasons for the high demand during the IPO?

Olaf Meier: On the one hand, we offer investors access – unique up till now – to up-and-coming frontier markets in Sub-Saharan Africa. Most countries in the region at the moment still don't have stock exchanges or, if they do, then only with very low levels of liquidity and few companies. Investors restricted to exchange-traded companies have hitherto been more or less unable to invest in these countries. If at all, the only way one can invest is in unlisted companies, taking a Private Equity approach as we do. Most equity and hedge funds, like retail investors, hence limit themselves to markets that are already further along in development, like South Africa and Nigeria. But it is particularly Africa's frontier markets that offer the best opportunities for growth. Another reason for the heavy demand for the IPO was certainly the favourable pricing. At target prices of around 16 to 17 euros, which is what analysts are calling for, there is already a nice upside of around 50 %.

mainvestor: Why did you decide on having ADC's IPO on the Frankfurt Stock Exchange and not, for example, in London or Johannesburg?

Olaf Meier: As I said, one of the highlights of ADC is that we provide investors with access to what may currently be the most exciting investment region in the world. Investors want to exploit the enormous possibilities afforded by Sub-Saharan Africa, but naturally wish to do so in combination with the greatest possible safety. Our partnership with World Bank subsidiary MIGA, which insures our portfolio against political risks and besides that guarantees that everything we do is on the up and up and ethically unobjectionable, is hence an important argument for coming on board with us. But also, the fact that ADC is a German holding company, with investors thereby getting the benefit of German corporate governance, German accounting thoroughness and a German stock exchange with extensive regulations and adequate liquidity, was one of the decisive reasons, first and foremost for international investors. Germany's stock exchange enjoys the highest international regard, and even investors from South Africa welcome our investor protection mechanisms. To put it succinctly: With ADC, you are getting the "real" Africa combined with German thoroughness and solidity. Hence: "the best of both worlds".

mainvestor: In the IPO, you placed shares exclusively with international institutional investors. There must really have been some top-quality names that were part of the group ...

Olaf Meier: That's right. We opted for this fast and efficient mode of placement to make it possible to schedule the IPO to close before the end of 2010. The quality of the subscribing investors was in fact top of the line. We were able to win some high-prestige international investors as shareholders. Even though I'd prefer not to mention any names here, long stretches of our shareholder list read like a Who's Who of the international hedge fund industry, strategic Africa investors and very well-known family offices. This naturally made us proud. A placement is in the final analysis always a litmus test for whether one's own strategy is rated as being correct by other financial and economic experts. This was convincingly the case.

mainvestor: Conversely, does that mean that ADC is not interested in German institutional and retail investors?

Olaf Meier: No, quite the opposite. We would be very happy to have more German shareholders. But during our roadshow, we had to come to the conclusion that, here in Germany, the topic of "Africa" is still treated as a niche subject and consequently there was a lot of grassroots work we needed to do, whereas we found open doors particularly in London, New York and naturally South Africa. If you have a look at the fundamentals, in the future there'll be no way of getting around Africa, and more and more investors will realise that, including those in Germany. And in my view, ADC is the best chance to get a piece of that. The stock exchange makes it possible to get in at any time.

mainvestor: The stock price is currently around EUR 12.50. So is it still worth to invest?

Olaf Meier: Over the past few weeks, we've risen moderately above the offering price of EUR 11.00. A development that I'm very pleased with. We don't want any hype in the share, and so we were accordingly restrained with the marketing. I consider the current price level still to be an appealing one to get in at. When all is said and done, we've only just begun our growth story and now, with the funds from the IPO, we have a basis for expanding our portfolio with a high potential return. The successful capital increase once again makes the outlook for ADC significantly more positive than before. Analysts already see the value of the share at around 16 to 17 euros, and my hope is for us to outperform that, even on a 12-month basis. An investor who gets in now still has room overhead.

mainvestor: You're not expecting selling pressure?

Olaf Meier: If investors want to get out of the stock, they generally do so on the first high-volume trading days after an IPO. But we saw rising prices on those days. Secondly, during the roadshow, we received clear signals that institutional investors understand ADC to be a long-term investment and would rather buy more. And thirdly, ADC's old shares are still subject to a strict lock-up provision until the end of June 2011, and hence can't be sold at all. And so to answer your question: No, I'm not expecting selling pressure.

mainvestor: What figures would you base a valuation of ADC on?

Olaf Meier: Since we are a financial holding company and thus far consolidate only one investment – SIMTEL in Rwanda – looking at the pure holding company numbers makes little sense. Much more important is the so-called "sum of the parts" value, i.e., the sum of the individual pieces. It's clear to me that, particularly for retail investors, this represents a higher expenditure of time and effort on analysis, which is why we are trying to get as much research coverage as possible, which takes care of this for investors. Silvia Quandt Research GmbH is currently looking for a portfolio value of around 16 to 17 euros per share, but based on very conservative forecasts for the individual subsidiaries. I am confident that we will beat these forecasts and then will justify even higher prices.

mainvestor: So is a broadening of analyst coverage shortly to be expected?

Olaf Meier: I am confident that – beside the research by Silvia Quandt & Cie. AG – in the near future we'll be seeing additional analysts' reports. We have received positive signals in this direction.

mainvestor: ADC invests in the frontier markets of Sub-Saharan Africa. Why precisely in this region?

Olaf Meier: Very simply, take a look at the facts: Lots of people are still talking about Asia and the BRIC countries (Brazil, Russia, India and China) and the shifting of economic power eastwards, since Asia is overtaking the rest of the world. But what is in fact the surprise success story of the last decade lies elsewhere. A study by 'The Economist' shows that, over the last decade, no fewer than six of the globally fastest growing economies are located in

Africa, below the Sahara. The only BRIC country that managed to reach the TOP 10 was China, already followed by Angola. The other five African sprinters were Nigeria, Ethiopia, Chad, Mozambique and Rwanda, all of which posted annual growth rates of around 8 % or more.

mainvestor: Will this also be lasting growth?

Olaf Meier: Yes, according to IMF estimates, over the next five years Africa will claim for itself seven of the Top 10 places among the fastest-growing economies. Over the past ten years, Sub-Saharan Africa's real GDP grew from only 2.4 % to a yearly average of 5.7 %. Standard Chartered Bank, which has its origins in Africa, Asia and India and possesses the corresponding expertise, is predicting that over the next 20 years, Africa's economy will grow by an average of 7 % annually – more rapidly than China. And now comes the most important part: While the whole world is already looking towards Asia and is investing there, most investors don't even have Africa on their radar. Africa, so to speak, is the better Asia and still has good gains to shower upon investors.

mainvestor: So why does this topic still not have much of a presence in Germany?

Olaf Meier: To Western investors, the economies of Africa seem tiny, making up only 2 % of the global contribution. But Africa's share is growing, not only because of the faster growth but also because GDP in many economies has been seriously underestimated. In November, Ghana's estimate for GDP was revised upward by 75 %, after government analysts added in areas like telecommunications. In all likelihood, other countries will also be revising their GDPs – and hence the accompanying growth forecasts – upwards over the next few years. Thus, even today Africa is already clearly more important than was thought – and investors have a lot of catching up to do.

mainvestor: What is driving these revolutionary changes?

Olaf Meier: Africa's positive future is to the greatest extent marked by China's rising demand for raw materials and the higher commodities prices that go along with this. But other factors are also playing a role.

mainvestor: Such as?

Olaf Meier: Africa has benefited both from large capital inflows from foreign investors, China most of all, as well as from development aid and debt relief. The urbanisation and rising incomes of the growing middle class have spurred faster growth on the domestic market. There have been broad improvements in economic conditions. State revenues over the last few years have been supported by high commodities prices and rapid growth. This money is increasingly being invested in the development of the respective States and is raising future competitiveness.

And it's not just about commodities. Countries like Rwanda, Uganda and Kenya, which do not have the largest supplies of natural resources on the continent, are also growing faster than

before, because they have increased a portion of their exports. Standard Chartered, for example, is of the opinion that Africa could become a significant production centre.

mainvestor: Would investors then still have to queue up?

Olaf Meier: As I said, the great interest of institutional investors in connection with the IPO shows us that many people see the opportunities and are even feeling anxiety about missing out on one of the major trends in coming years. But this whole matter is still right at the beginning and the more investors who join us, the higher the valuations will be. The earlier one gets on board, the more one can take part in the success that awaits.

mainvestor: ADC invests in the area of banking and insurance. These are not absolutely the first industries one thinks of in connection with the development of Africa. Commodities would be a lot more obvious here.

Olaf Meier: Commodities are naturally something to talk about in many regions of Africa. But the database is clear. Independent forecasts are telling us that the largest growth, 8 % a year, is shown by the financial area – even ahead of the commodities sector. It simply is the case that the basis for the continued growth of economies is a functioning financial system and that's exactly what we're doing. Only 20 % of the population of Sub-Saharan Africa currently has access to the formal financial sector. But that will change with the rise of a middle class, as purchasing power goes up and, in general, the gross national product continues to grow apace.

mainvestor: What are your return expectations for ADC?

Olaf Meier: Our target is annual returns on invested capital well into the double digits. In order to ensure that, we test all potential investments for an annual earnings potential that lies well above our target return.

mainvestor: And to get such returns in Africa, does a company headquartered in Frankfurt am Main have sufficient expertise?

Olaf Meier: ADC is present in Africa via its strong team. Out of Frankfurt alone we naturally could not be successful. Our added value consists, above all, in the fact that we combine the regional presence and the local network with international expertise in the financial sector and in management processes. In that way, we can actively coach and develop companies and quickly bring them up to an international best-practices level. It is precisely through these improvements in management, but also in the IT area as well, for example, that we are still able to generate added returns over and above the already handsome market returns. Once more a combination, the 'best of both worlds'.

mainvestor: And the reason you're doing that from Frankfurt and not from Africa is because ...?

Olaf Meier: Because – as I stated – by being listed on the Frankfurt Stock Exchange we are able to offer investors an investment guided by the highest standards of transparency and corporate governance and subject to stringent German regulations. Therefore in order to send a clear signal here, we even want over the coming months to change over to the Prime Standard, which imposes even higher requirements of transparency and reporting. That, by the way, is also a prerequisite for inclusion in an index. Our first goal is the SDAX. Based on the market capitalisation of the free float, upon our switch to the Prime Standard in the summer we'll be a candidate for the SDAX. In that event, we'll be able to draw the attention of more investors to us just because we're part of an index, investors who today don't even have us on their radar.

mainvestor: Last week you were able to report your first investment following the IPO: a share of Kenyan insurance company RHEAL. Can you tell us anything more?

Olaf Meier: ADC acquired 25 % of the shares of Resolution Health East Africa Ltd., RHEAL, one of the Top 3 health insurers in Kenya. The purchase price for the 25 % is around EUR 1.8 million. As part of the transaction, ADC was also granted extensive control and co-determination rights at RHEAL.

mainvestor: What is special about RHEAL?

Olaf Meier: Health insurance in Kenya is a lot simpler, and cannot be compared with our system of compulsory insurance. There are set rates for medical treatments and the patient is not free to select a physician, but instead must entrust his treatment to a panel doctor. These panel doctors absolutely hold their own against any international comparison, but are compensated on the basis of the verifiable medical diagnosis. Every broken leg receives the same compensation rate, regardless of the time taken and the difficulty of treatment. That makes the risk far more calculable than in the developed world. The newly rising middle class is insuring itself, and banks are also asking retail customers for this insurance when they issue loans.

mainvestor: That sounds like a growth market ...

Olaf Meier: Absolutely. General growth in the industry is around 25 %. With RHEAL, we are even predicting growth in excess of that amount: 40% a year. At the moment, only about 5 % of Kenya's 39 million people possess any health insurance at all, and in neighbouring countries growth opportunities are even higher, since health insurance schemes are even less well established on the market. Insurance schemes of this sort are easily scalable, and we even see strong regional expansion over the next few years.

mainvestor: You currently have five companies from the frontier markets of Sub-Saharan Africa in the ADC portfolio. What route are you intending to head down?

Olaf Meier: We have a concrete investment pipeline of around EUR 60 million. With the proceeds of the capital increase from the IPO, we will be able to pick the plum opportunities out of the mix. I think it's possible that, over the coming year, we may be able to make another two to three investments. In the final analysis, we want to be among the 'first movers' from Europe to exploit the window of time that is now opening. We aim to position ADC as one of the leading investors in the frontier markets of Sub-Saharan Africa, and this is something that the capital markets too will be better able to grasp with every additional purchase we make.

mainvestor: Thank you very much for speaking with us, *Mr Meier*.

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