

Sturgeon Insights (03 November 2020)

What does the Kaspi IPO mean for Central Asian businesses, investment and investors?

October 2020 may well go down as the month that international investor's perception of Central Asia changed forever. Kaspi.kz, a payment, marketplace and fintech ecosystem, became the largest Kazakh company ever to IPO in London. Valued at \$6.5 billion, Kaspi.kz created two billionaires and signalled that Central Asia could produce high quality, technology-enabled companies that can compete with their global peers while generating high returns for institutional investors such as Goldman Sachs and Baring Vostok.

For a region of such potential, there are very few ways for international investors to access these opportunities. While the public markets have limited liquidity and high volatility, private markets offer extremely attractive, but more difficult to access, opportunities. Sturgeon Capital is one of the only VC investors focused on Central Asia, with a dedicated team actively deploying capital into some of the most exciting businesses in the region. As the region opens up there is a window of investment opportunity, with early movers set to be rewarded with attractive valuations and the pick of the most promising companies.

An IPO unlike anything before it

Prior to Kaspi's record breaking IPO, the investment universe in Central Asia was largely limited to commodities and traditional financial services companies. These were pure macro plays, with volatile returns at the mercy of commodity prices and exchange rates. Some of the most well-known companies include Centerra Gold, the largest gold miner in Kyrgyzstan, whose stock is (unsurprisingly) highly correlated to the price of gold. Another example is Halyk Bank, the largest traditional bank in Kazakhstan, where the share price rises and falls with the Kazakh Tenge. In light of the perceived political instability, the volatility of the local currencies and fluctuation in oil prices, most institutional investors have steered well clear of Central Asian stocks.

The most attractive opportunities often related to privatisation of state assets. In Kazakhstan, the majority of these companies are tied to commodities, which is not surprising given that oil & gas (17% GDP) and mining (16.3% GDP) are the country's two largest sectors. Although Uzbekistan has a more diversified economy, the privatisation process is still in its very early days. Given the perceived higher risk in Central Asia, there was little to tempt institutional money when one could get exposure to the same macro factors elsewhere without this additional risk.

Kaspi.kz is an entirely different investment story and forerunner of many more digital businesses in the region. The company's growth is not dependent on the price of commodities or fluctuations in FX, but rather the monetisation of efficiency gains as the country digitalises its economy. Coming from a low base, the adoption of cashless payments, e-Commerce and digital financial services can sustain Kaspi.kz's growth over an extended period.

Kaspi.kz – a holistic, self-perpetuating (and highly profitable) ecosystem

Kaspi.kz is the largest Payments, Marketplace and Fintech Ecosystem in Kazakhstan with a leading market share in each of its key services and products. At the core of the Kaspi.kz ecosystem is the Kaspi.kz Super App: the leading mobile app in the country with 7.8 million monthly active users (MAU). The Kaspi.kz Super App serves as a single gateway to all of the company's services, and usage is going up as people's daily lives become increasingly digitalised, with the Covid-19 pandemic accelerating consumer adoption of cashless payments, e-Commerce and digital financial services.

Kaspi.kz – a holistic, self-perpetuating (and highly profitable) ecosystem (continued)

The company's ecosystem business model, where the growth and development of one service contributes to the growth and development of other services, creates a powerful virtuous cycle. A growing number of services being used by the company's consumers results in synergies across all of its platforms - the structurally high profitability creates a powerful self-reinforcing network effect.

Payments			Marketplace		
1H 2020 ₸ 8,179BN \$20.3BN ⁽¹⁾ Total Payments Value +186% YoY Growth	1H 2020 ₸ 49BN \$120MM ⁽¹⁾ Revenue +92% YoY Growth	1H 2020 ₸ 24BN \$59MM ⁽¹⁾ Net Income +161% YoY Growth	1H 2020 ₸ 271BN \$0.7BN ⁽¹⁾ Gross Merchandise Value +12% YoY Growth	1H 2020 ₸ 19BN \$47MM ⁽¹⁾ Revenue +22% YoY Growth	1H 2020 ₸ 10BN \$25MM ⁽¹⁾ Net Income +6% YoY Growth
Fintech			Consolidated		
1H 2020 ₸ 694BN \$1.7BN ⁽¹⁾ Total Finance Value -20% YoY Decrease	1H 2020 ₸ 231BN \$573MM ⁽¹⁾ Revenue +25% YoY Growth	1H 2020 ₸ 81BN \$202MM ⁽¹⁾ Net Income +40% YoY Growth	1H 2020 ₸ 299BN \$741MM ⁽¹⁾ Revenue +32% YoY Growth	1H 2020 ₸ 116BN \$286MM ⁽¹⁾ Net Income +50% YoY Growth	1H 2020 39% Net Income Margin

Covid-19 has only made the company's ecosystem more relevant.

- Mobile MAU increased by 72% from the first six months of 2019 to 7.8 million, with 90% of transactions taking place through the app (vs. 68% 2019) and average monthly transactions per user increasing to 19.3 from 10.0.
- Total payments value (TPV) on the payments platform was up 186% to KZT8.2 trillion (U.S.\$20.3 billion) in the first half of 2020, taking further market share from Mastercard and Visa.
- Online Marketplace GMV increased 77% to KZT114 billion (U.S.\$281 million) year-on-year, accounting for 42% of overall Marketplace GMV, up from 27% in first 6 months of 2019. Total GMV reached KZT271 billion (U.S.\$671 million), representing an increase of 12% year-on-year.
- The Fintech platform saw 91% of total finance value (TFV) originated through the Kaspi.kz app, with cost of risk stable year-on-year at 4.2% despite the deterioration in the economic environment, illustrating the strength of the data driven real time risk management.

The combination of the above had a significant impact on the company's top and bottom line. In the first 6 months of 2020, the company generated total revenue of KZT299,096 million (U.S.\$741 million), demonstrating 32% year-on-year growth. Taking advantage of cost savings and operational leverage inherent within its ecosystem, net income increased 50% year-on-year to KZT115,579 million (U.S.\$286 million), with a net income margin of 39%.

Central Asia – primed for innovative technologies

With two newly minted billionaires in Kazakhstan, Kaspi.kz is an inspiration for an entire generation of entrepreneurs across the region who are developing new ideas and projects with the local infrastructure and ecosystems in each country developing at varying speeds to support them. Government backed accelerators and incubators such as the Astana Hub in Kazakhstan, IT Park in Uzbekistan, and the High Technology Park in Kyrgyzstan are all fostering their own ecosystems while working together with each other to support regional development.

Central Asia – primed for innovative technologies (continued)

The same secular trend which drives Kaspi's growth is evident across Central Asia. Young, tech-savvy populations without existing preconceptions of how things 'should be' are an ideal market for entrepreneurs to develop innovative products and services. As internet and mobile penetration increase rapidly, it is becoming cheaper and quicker to scale products both within each country and across borders. While some companies are cloning business models which have been successful globally, others are developing entirely new models born out of local necessities. The entrepreneurial talent we have seen suggests that Central Asian businesses can be successful not just in the region but globally.

One of the biggest issues for local entrepreneurs is a lack of available equity capital, particularly for early stage companies. A recent survey in Uzbekistan by the Uzbek Venture Capital Association found that 89% of early stage companies surveyed required additional capital to grow their business. Although this lack of capital is a major challenge for businesses looking to scale, it does create opportunities to invest at attractive valuations in companies enjoying significant traction and revenue growth. The success of Kaspi.kz will encourage more international investors to consider Central Asia, increasing the supply of capital for local start-ups and further developing the ecosystem.

As Kaspi.kz has demonstrated, frequency of contact with the consumer is a vital component to building a successful ecosystem and enabling cross-selling and upselling of products. Creating a network like this encourages international investment, as was the case with Payme in Uzbekistan. Payme is a leading payments provider in the country, which was acquired by Georgian TBC Bank as a means of market entry. Payme's >2 million customers are frequent users of the app and therefore a ready-made distribution network on which TBC can build its own financial ecosystem.

A window of investment opportunity for Central Asia

For a region dominated by inefficient traditional industries, opportunities are emerging to invest in innovative businesses which are solving problems for the mass market and establishing the beginnings of ecosystems that can be truly scalable. These future industry leaders are found in private markets and are consequentially not easy to access.

Sturgeon has been on the ground for over 15 years, establishing an unparalleled network that provides consistently high-quality deal flow. We are currently the only international VC actively investing in innovative, technology-enabled businesses that are meeting the needs of the mass market and have the potential to scale significantly.

Sturgeon offers investors a chance to gain exposure to local businesses at highly attractive valuations with the potential to achieve success to match Kaspi.kz. Not only has Kaspi.kz proven the potential of technology-based businesses in Central Asia, it has also shown investors that the region can generate truly uncorrelated sources of returns. With negative real rates and distorted equity valuations in developed markets, Central Asia offers a unique opportunity to allocate capital. For a region long ignored by international investors, we are extremely confident Kaspi.kz represents the beginning of a new era.

For more details on Sturgeon Capital and their Fund offerings please contact the team:

Contact

Alex Branton

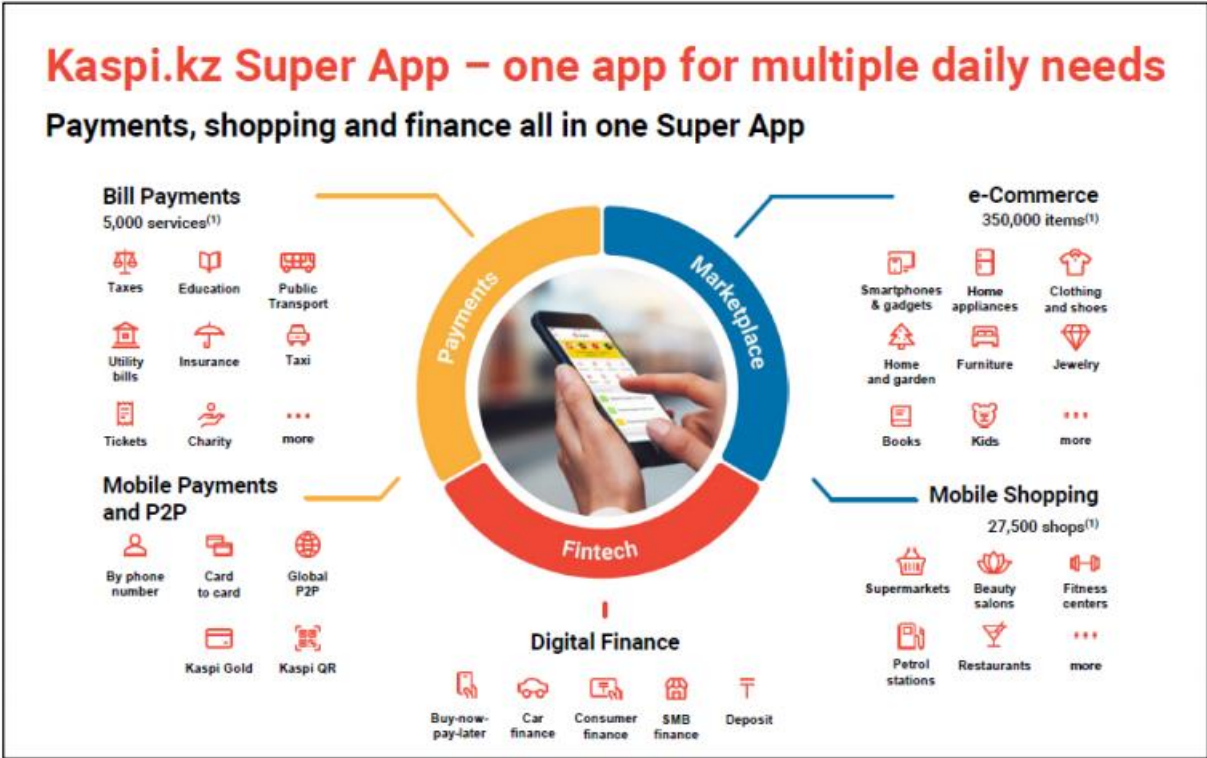
Investment Director

ab@sturgeoncapital.com

Appendix 1: Kaspi.kz Ecosystem

The Kaspi.kz ecosystem currently comprises the following three market leading platforms:

- The Payments platform connects the company's customers, which consist of both consumers and merchants, to facilitate cashless, digital payment transactions. Consumers can transact with merchants and amongst themselves using a variety of services, including the Kaspi.kz Super App, a Kaspi Gold pre-paid debit card and/or any bank card or e-Wallet. In June 2020, the Company's proprietary payment network transactions accounted for 66% of total payment network transactions in Kazakhstan, versus other payment networks including Visa and Mastercard.[1]
- The Marketplace platform connects merchants and consumers, enabling merchants to increase their sales and enabling consumers to buy a broad selection of products and services from a variety of online and offline merchants. Kaspi helps merchants increase their sales by linking them to its technology, payment options, including buy-now-pay-later consumer finance products, fulfilment, marketing and branding services. Kaspi.kz was the largest online retailer in Kazakhstan by sales value in 2019, with an e-Commerce gross merchandise value (GMV)[2] share corresponding to 46% [3] of the market. The Marketplace platform's total GMV had a value share of total Kazakhstan retail trade of 5.5% [4] in 2019.
- The Fintech platform enables consumers to access - primarily through the Kaspi.kz Super App - the company's digital finance products, including consumer finance and deposits. Kaspi.kz's buy-now-pay-later consumer finance products are also strategically integrated with its Marketplace platform, which means that consumers are able to make a purchase seamlessly with financing and then pay overtime in monthly instalments. In 2019, the company enjoyed the largest market share of consumer loans in Kazakhstan, amounting to 32% [5].



(1) National Bank of Kazakhstan ("NBK"); (2) A financial metric calculated for any period as the total value of goods and services sold across the company's marketplace platform, expressed in millions of Tenge; (3) Euromonitor (market size estimate); (4) Ministry of National Economy of the Republic of Kazakhstan Committee on Statistics ("MNE") (total retail market spending estimate); (5) NBK.

Appendix 2: Central Asia Data

The Central Asian markets share many similarities, not least the cultural and linguistic links courtesy of centuries of trade along the Silk Road and within the Soviet Union. Kazakhstan is the most advanced in terms of mobile and internet penetration, and the business ecosystem is the most sophisticated. Uzbekistan has the largest population, and is rapidly growing from a low base across the board, sparked by government reforms. Kyrgyzstan, Tajikistan and Turkmenistan are smaller, but they all have the potential to produce quality businesses which can scale across the region. Having met well over 100 companies from across Central Asia, they all had regional ambitions.

Country	Population	GDP / capita	Internet Pen.	Mobile Subscriber Pen.	Bank Account Pen.	Global Innovation Index	Ecommerce Market Size
Kazakhstan	18.5m	\$9,731	79%	69%	59%	77	\$2,143m
Kyrgyzstan	6.5m	\$1,309	50%	64%	40%	94	\$163m
Tajikistan	9.3m	\$871	26%	62%	47%	109	\$55m
Turkmenistan	5.9m	\$6,967	26%	60%	41%	-	\$82m
Uzbekistan	33.5m	\$1,725	55%	60%	37%	93	\$643m
Total	73.7m	-	55%	63%	44%	-	\$3,086m

Sources: World Bank; Data Reportal; GSMA; The Little Data Book on Financial Inclusion, 2018; Global Innovation Index 2020; Astana International Financial Centre (AIFC)

DISCLAIMER

This presentation is not an advertisement or a prospectus and is not intended for public use or distribution. It has been prepared by Sturgeon Capital Limited ("Sturgeon Capital") for information and discussion purposes only with prospective eligible investors and should not be considered to be an offer or solicitation of an offer to buy or sell shares in the capital of the Fund. In particular, this document does not constitute an offer to sell, or the solicitation of an offer to acquire or subscribe for shares in the capital of the Company in any jurisdiction where to do so would be unlawful. This document, any presentation made in connection herewith and any accompanying materials do not purport to contain all information that may be required to evaluate the Company and/or its financial position and do not, and are not intended to, constitute either advice or a recommendation regarding shares of the Company. This document is not intended to provide, and should not be relied upon for, accounting, legal or tax advice and each prospective investor should consult its own legal, business, tax and other advisers in evaluating any potential investment opportunity.

The information in this presentation has not been fully verified and is subject to material revision and further amendment without notice. This presentation has not been approved by an authorised person in accordance with section 21 of the Financial Services and Markets Act 2000. As such this document is being made available only to and is directed only at: (a) persons outside the United Kingdom; (b) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); or (c) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) (A) to (C) of the Order, and other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). Any failure to comply with these restrictions constitutes a violation of the laws of the United Kingdom.

The distribution of this presentation in, or to persons subject to the laws of, other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the relevant jurisdiction. This presentation may not be copied, circulated or published, in whole or in part, without the prior written consent of Sturgeon Capital.

None of the Company or Sturgeon Capital or any other person makes any guarantee, representation or warranty, express or implied, as to the accuracy, completeness or fairness of the information and opinions contained in this document, and none of the Company or Sturgeon Capital or any other person accepts any responsibility or liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

In preparing this presentation, Sturgeon Capital has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which Sturgeon Capital otherwise reviewed. The information presented in this document may be based upon the subjective views of Sturgeon Capital or upon third party sources subjectively selected by Sturgeon Capital. Sturgeon Capital believes that such third party sources are reliable, however no assurances can be made in this regard.

Neither this presentation nor its contents may be distributed, published or reproduced, in whole or in part, by you or any other person for any purpose. In particular, neither this presentation nor any copy of it may be: (i) taken or transmitted into the United States of America; (ii) distributed, directly or indirectly, in the United States of America or to any US person (within the meaning of regulations made under the US Securities Act 1933, as amended); (iii) subject to certain exceptions, taken or transmitted into Canada, Australia, New Zealand or the Republic of South Africa or to any resident thereof; or (iv) taken or transmitted into or distributed in Japan or to any resident thereof. Any failure to comply with these restrictions may constitute a violation of the securities laws or the laws of any such jurisdiction. The distribution of this document in other jurisdictions may be restricted by law and the persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

The value of investments and the income from them can fall as well as rise. An investor may not get the amount of money he/she invests.

This document may include statements that are, or may be deemed to be, forward-looking statements. The words "target", "expect", "anticipate", "believe", "intend", "plan", "estimate", "aim", "forecast", "project", "indicate", "should", "may", "will" and similar expressions may identify forward-looking statements. Any statements in this document regarding the Company's current intentions, beliefs or expectations concerning, among other things, the Company's operating performance, financial condition, prospects, growth, strategies, general economic conditions and the industry in which the Company operates, are forward-looking statements and are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and that may cause the actual results, performance or achievements of the Company to differ significantly, positively or negatively, from those expressed or implied by such forward-looking statements. No representation or warranty, express or implied, is made regarding future performance or the achievement or reasonableness of any forward-looking statements. As a result, recipients of this document should not rely on forward-looking statements due to the inherent uncertainty. Save as required by applicable law or regulation, the Company undertakes no obligation to publicly release the results of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document. No statement in this document is intended to be, nor should be construed as, a profit forecast.

This document includes certain track record information regarding Sturgeon Capital. Such information is not necessarily comprehensive and potential investors should not consider such information to be indicative of the possible future performance of the Company or any investment opportunity to which this document relates. The past performance of Sturgeon Capital is not a reliable indicator of, and cannot be relied upon as a guide to, the future performance of Sturgeon Capital or the Company.

By accepting this document or by attending any presentation to which this document relates you will be taken to have represented, warranted and undertaken that: (i) you are a relevant person; (ii) you have read and agree to comply with the contents of this disclaimer; and (iii) you will treat and safeguard as strictly private and confidential all the information contained herein and take all reasonable steps to preserve such confidentiality.