

Grindstone Ventures launches \$6.5m VC fund for SA tech SME development

Grindstone Ventures has launched a \$6.5m (R100m) fund dedicated to seed funding predominantly South African innovative technology startups who have completed, or are part, of its Grindstone Accelerator programme, which is a growth engineer for participating startups, and acts as an early due-diligence mechanism for the new fund.



Grindstone's team L to R Andrea Bohmert, Rapelang Rabana, Catherine Young and Grace Legodi.

The female-led African venture capital fund will focus on post-seed investments, where there is currently a major gap in the South African funding landscape. The fund will invest primarily in early-stage innovation driven and/or technology companies that are female-led.

Grindstone Ventures will target SMEs that have a sustainable impact and are able to create meaningful jobs.

South Africa: a startup nation

The fund's launch is in line with President Ramaphosa's vision to position South Africa as a startup nation. In October, Grindstone participated in a deep dive session with the President and the South African startup industry, to determine a roadmap for the country's vision of becoming a startup nation.

The fund will target between 30 and 50 early-stage companies that possess strong intellectual property, demonstrate high

growth potential and have the ability to raise follow-on funding from credible funders in the ecosystem, or deliver sustainable cash yields over the long term. The typical investment structure will be via a SAFE (simple agreement for future equity) to align speed of negotiation and execution with the investment stage.

Grindstone Ventures is led by Catherine Young, Andrea Bohmert, Rapelang Rabana and Grace Legodi, an all-female team with exceptional depth of experience across value chain funding, and a proven track record in scaling startups. Leading venture capital firm, Knife Capital, is overseeing certain of the fund management elements.

Catherine Young, managing partner at Grindstone Ventures says: “Our aim is to provide superior returns to investors and to create sustainable yields over the long term. While the tech ecosystem deal space across Africa has shown exceptional growth over recent years, there remains a gap in the market for post-seed, pre-Series A funding across the continent. Our vision is to fill this gap and prepare these businesses for larger funding rounds, exponential growth and to ultimately exit.”

“Our secret sauce lies in our robust Grindstone Accelerator, which enables innovation-driven tech startups to access knowledge, networks, funding and markets. Typically an accelerator follows a fund, but Grindstone Ventures is turning this model on its head. Grindstone Ventures was launched as a result of the excellent pipeline of businesses emerging from Grindstone Accelerator, which provide investors with a de-risked opportunity for returns.”

A vote of confidence

Young said the fund received its first investment from the SA SME Fund.

“We were very excited about the vote of confidence the SA SME Fund’s investment showed in our vision for the fund, and our team. The SA SME Fund is known for its ability to spot and act on viable, exciting investment opportunities and as a first mover, we believe the confidence that they have shown will pave the road for other investors”, says Young.

Ketso Gordhan, CEO of the SA SME Fund, said: “We chose to support this fund because we believe it will fill a vital gap in the post-seed market. As a fund, it is as innovative as the startups that it will fund. The team is deeply experienced, has a proven track record and we are excited about the opportunity and impact that they will have on this market. Watch this space.”

Grindstone Accelerator is a structured entrepreneurship development programme that is jointly owned by Knife Capital and market access specialist Thinkroom Consulting. It takes South African SMEs with proven traction through an intensive year-long review of their strategies and provides them with the necessary support to build a foundation for growth in becoming more investable, sustainable and exit-ready.

Some of South Africa’s best scale-up companies have been through Grindstone, including radar startup iKubu (acquired by Garmin); augmented reality animation and gaming company SeaMonster (recently secured a \$1m investment from FirstRand’s Vumela Fund); online payment gateway Payfast (last year acquired by DPO Group); financial inclusion business Picsa; and on-demand grocery delivery service OneCart. Knife Capital invested in ticketing solutions provider Quicket and warehouse management software company Granite via its SARS Section 12J Venture Capital Company: KNF Ventures.