

## EXECUTIVE SUMMARY

### Introduction and background to the offer

YETU Microfinance PLC (hereinafter referred to as “YETU”) is a company limited by shares. It was incorporated in the United Republic of Tanzania, under the Companies Act 2002 on December 23, 2013 with Certificate of Incorporation No. 104761. The company was incorporated primarily to take over the business of the Youth Self Employment Foundation (“YOSEFO”), established as a Trust under the Incorporation of Trustees Ordinance Cap 318, then providing grassroots financial services concerned mainly with lending to and business training of micro entrepreneurs.

Through this transformation and upon raising capital required through this Offer, YETU will be able to secure a banking license and expand its scope of business. YETU Microfinance has already submitted an application for banking license and has put in place infrastructure, IT systems and human resources for delivery of community banking services.

The company has two classes of shares: ordinary shares and preference shares. Currently, only the ordinary shares have been issued.

The authorized, issued and paid up share capital as at June 30, 2014 was as follows:

**Table 1: Share capital as at June 30, 2014**

AUTHORISED CAPITAL	
<b>100,000,000 Ordinary Shares of TZS 250/= each</b>	<b>25,000,000,000</b>
<b>20,000,000, Preference Shares of TZS 250/= each</b>	<b>5,000,000,000</b>
ISSUED AND FULLY PAID	
<b>36,972,249 Ordinary Shares of TZS 250/= each</b>	<b>9,243,062,250</b>
<b>Preference shares</b>	<b>0</b>

This Offer aims to raise TZS 12,596,606,500 by selling 25,193,213 shares at a price of TZS 500 per share. This will represent 68.1% of the final issued share capital of the Company. Of the shares on offer, 2,170,739 shares are reserved for existing members of YOSEFO by way of transfer to share capital of their deposits under the compulsory savings scheme.

The IPO proceeds (net of the Offer expenses) will accrue to YETU, to be used to broaden and expand the existing capital and loan book. The transaction will also allow YETU Microfinance PLC to meet the capital requirements for a banking license.

The shares will then be listed with the name of YETU Microfinance PLC under the sticker “YETU“.

YETU Microfinance PLC which is taking over the financial services delivery business of YOSEFO has jumped at the opportunity provided in the Microfinance and Credit Activities Regulations, 2005 and the Banking and Financial Institutions Act, 2006 to transform and scale up YOSEFO, a well-established brand in the provision of grassroots financial services, into a microfinance deposit taking institution. In the process, YETU will also define its ownership structure more purposively in order to meet the expanding financial needs of its clientele.

The reasons to launch the IPO and the subsequent listing on the Dar es Salaam Stock Exchange have been driven by a Business Plan that has been approved by the Board, which addresses the following considerations:

- **Capital:**-To raise additional capital that would allow the company expand its scope of business that entail introducing SMEs loans and other loan products like advances.
- **Spread of Ownership:** -Issuing shares to the public will enable dilution of ownership so that not more than 20% is owned by a single individual or entity.
- **Business Innovation:** IPO will bring about cash which will be used to upgrade its MIS system so that it can cope with the growing number of customers transforming three branches namely Ifakara, Kilwa and Zanzibar into full-fledged bank branches. It will also attract more customers to join.
- **Customer Preference:** To enable existing customers of YETU the opportunity to participate directly in the equity and future growth of YETU Microfinance PLC.

### **Nature of the Business**

YETU Microfinance PLC is a Public Limited Company promoted by YOSEFO and its founder Directors and employees. YETU is a Credit-only MFI which has been created as part of YOSEFO’s transformation into a licensed financial institution. The end result of the transformation process is to marshal and bring together YOSEFO’s assets and established core business operations under the umbrella of YETU as a microfinance Bank.

YOSEFO, from which YETU is inheriting its business of microfinance, had been in operation since 1997 with six branches located in Dar es Salaam, Morogoro, Lindi, Tanga, Coast Region and Zanzibar. YOSEFO was established as a Trust under the Incorporation of Trustee Ordinance Cap 318, with Certificate of Incorporation # 2815 given on March10, 2004.

### **Movement of Ownership**

The ownership of YETU Microfinance is spread in different groups of individuals according to their capital contributions. The ownership is expressed in terms of

shares, of which currently the major owners of YETU Microfinance are YOSEFO, Founder Directors and Employees.

The initial authorized share capital of YETU at the time of incorporation in December 2013 comprised TZS 30,000,000,000 divided into TZS 25,000,000,000 ordinary shares of TZS 250/= each, plus TZS 5,000,000,000 comprising 20,000,000 preference shares of TZS 250/= each.

The movement in the number of issued and paid up ordinary shares began with 5 shareholders holding 5 ordinary shares at incorporation, as follows:

**Table 2: Founder shareholders' holdings at incorporation:**

Name	No. of share
Altemius Ambros Millinga	1
Happy Zabron Sambega	1
Phares Thobias Kapinga	1
Esther Rossiner Mbise	1
Simpert Oswin Ndunguru	1

On October 8, 2014, the shareholders passed a resolution (hereinafter called "the Restructuring Resolution") stating that certain net assets of YOSEFO (hereinafter called "the Initial Net Assets") that were transferred from YOSEFO at book value to the founding shareholders as shown in the table below. As part of the restructuring program, the resolution mandated the management to collect cash injections from the founding Directors and the employees with a view of further diluting YOSEFO stake in YETU toward 20% maximum;

The resulting ownership structure is summarized by the following table:

Table 3: Current shareholding structure

CURRENT SHAREHOLDERS B/FRWD	INITIAL NET ASSETS	CASH INJECTIONS	OPENING NET ASSETS	OPENING SHARES	%
YOSEFO	1,877,789,322	-	1,877,789,322	3,755,579	63.77%
FOUNDER DIRECTORS	604,174,814	11,000,000	615,174,814	1,230,350	20.89%
EMPLOYEES	406,492,011	45,300,300	451,792,311	903,585	15.34%
GENEAL PUBLIC	-	-	-	-	
<b>Total</b>	<b>2,888,456,147</b>	<b>56,300,300</b>	<b>2,944,756,447</b>	<b>5,889,514</b>	<b>100</b>

The restructuring resolution also reduced the par value of each share to TZS 250/= from the original 500/= thereby increasing the number of shares held by the then existing shareholders. It was also resolved that fresh shares be issued to dilute YOSEFO completely, with following resulting shareholding structure:

**Table 4: Share capital after the offer (IPO)**

Final Shareholders	Opening Shares @ TZS 500	Opening Shares @ TZS 250	IPO Shares	Final Shares	%ge
YOSEFO	3,755,579	7,511,158	-	7,511,158	20.32%
Founder Directors	1,230,350	2,460,700	-	2,460,700	6.66%
Founder Employees	903,585	1,807,170	-	1,807,170	4.89%
General Public	-	-	25,193,213	25,193,213	68.14%
Totals	<b>5,889,514</b>	11,779,028	25,193,213	36,972,241	100%

Of the fresh shares on offer in terms of the IPO, it was resolved that up to a maximum of 2,170,739 shares (amounting to about 6% of the issued share capital) be reserved for members and existing clients of YOSEFO. In the event they are unable or unwilling to take up the shares on the same IPO terms, the shares shall revert to the public pool.

### Movements in Share Capital

The history of the ordinary share capital of the company consists of 3 movements as follows:

**Table 5: Changes in YETU's Share Capital since incorporation**

Description	Shares	Share Capital TZS
At incorporation [@TZS 500 par]	5	2,500
At first restructuring [@TZS 500 par]	5,776,912	<b>2,888,456,000</b>
500 par]	<b>112,601</b>	56,300,500
Subtotal: share @ TZS 500/=	5,889,518	2,944,759,000
Subtotal: recasted @ TZS 250/=	11,779,036	2,944,759,000
Additions after IPO @ TZS 250	25,193,213	6,298,303,250
Total share capital after IPO	36,972,249	9,243,062,250

### Dividend policy

The declaration of dividends will be recommended by the Board of Directors and approved by the shareholders. It will depend primarily on profits made and the Company's capital requirements in compliance of banking laws, regulations and guidelines.

Subject to these provisions being met, the Directors will distribute at least 60% of available profits as dividends. The dividend payable shall be subject to 5% withholding tax

## **Summary Financial Information**

Strictly speaking, YETU is a start-up company in terms of the CMSA's Enterprise Growth Market (EGM) and Nominated Advisor Regulations and, in that sense, does not have a track record to present to investors in this Prospectus.

Having said that, it is also true to highlight the fact YETU is inheriting the microfinance business of YOSEFO in its entirety i.e. including branch network and staff. This would suggest that YOSEFO's track record may be expected to provide a mirror image of YETU's operations going forward, taking off from the point where YOSEFO has ended.

In evaluating YETU's likely financial performance, we find it sensible to present the summary of financial results of YOSEFO over the past years. This will enable investors to reach an informed decision on the merits of this transaction.

For this reason, the Independent Reporting Accountant has issued a report on YOSEFO's 3-years audited financial statements for the years ended 31 December 2012, 2013 and 2014. These are herein incorporated under Section F. It has also prepared an Independent Reporting Accountant's Report on the Profit Forecast for the Years Ended 31 December 2015 - 2018, herein incorporated on page 57. The latter has been done to underpin the fact that although YETU is inheriting YOSEFO's operations, it is a new establishment in areas of scope and emphasis. The extended period provides readers with useful information, otherwise the norm is to use a profit forecast for only 1 year at most.

Over sixteen years, YOSEFO has grown to become one of the key players in the Microfinance in Tanzania. YOSEFO has been a pioneer in Agricultural Microfinance loans, loans for education, group lending methodology and rural microfinance.

The following table provides financial results for 2009 - 2013

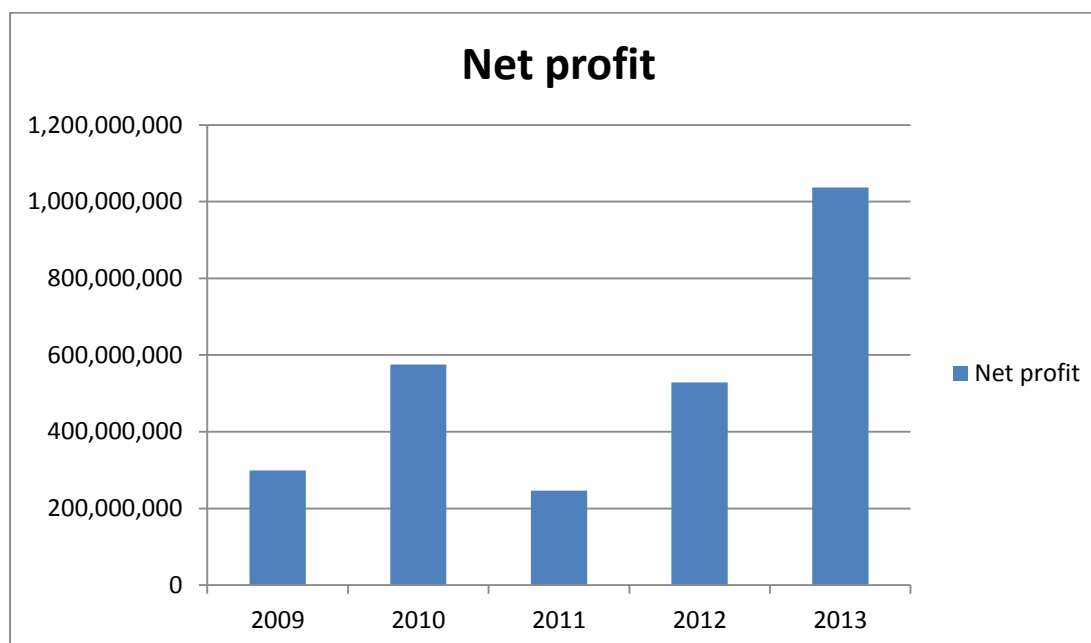
**Table 6:** Financial Performance (2009 - 2013)

<b>PROFITABILITY</b>					
<b>Years</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net profit (Tzs)	298,914,374	575,673,121	246,808,084	528,996,464	1,037,060,240
Operational Self Sufficiency	115.3%	138.1%	121%	131%	152%
Financial Self Sufficiency	105.9%	114.9%	129.8%	127.1%	133.3%

**Source: Audited Accounts of YOSEFO**

Record shows that since year 2000 YOSEFO has never made loss except in 2005. The loss was as a result of the expansion drive to Kilombero and Ilala districts.

Graph 1: Profitability; 2009 -2013



**Source:** Audited accounts of YOSEFO

The earnings of YOSEFO have been retained and as a result they form the core equity of the organization.

## EQUITY

Table 7: Sources of equity as of December 31, 2013 which have been built up over the years

Equity structure as at December 31 2013		
	Amount in TZS	Participation
Revaluation Reserve	81,436,002	3%
Capital Fund	30,821,985	1%
Grant Capital Fund	353,337,014	12%
Award and Capital Fund	26,385,494	1%
Retained Earnings	2,428,387,383	83%
<b>Total</b>	<b>2,920,367,878</b>	<b>100%</b>

**Source:** Audited accounts and other financial records of YOSEFO

The main positions from the balance sheet reflect the development of YOSEFO as a stable and growing Microfinance Institution. As of December 31' 2012, YOSEFO had a net portfolio of TZS 4,753,554,139 and the amount has grown to TZS 6,151,987,941 billion as of 31December, 2013. YOSEFO handed over to YETU Microfinance total assets valued at TZS 7,044,637,044 which is financed by total liabilities of TZS .4, 431, 180,898 of which loan guarantee funds by borrowers is 65% and 34% loans from wholesale MFIs and Banks.

## Summary of the initial Public Offer

**Table 8:** Offer statistics

Offer price	TZS 500
Number of shares on Offer	25,193,213
Expected amount to be raised	12,596,606,500

### Allotment policy

The Directors have resolved to enforce the following allotment formula, subject to CMSA approval:

- a) A maximum of 2,170,739 shares have been reserved for YOSEFO members in exchange for their deposits under the compulsory savings scheme;
- b) A minimum of 80% of the issued shares to the public shall be offered to Tanzania nationals and the remaining 20% is available for non-Tanzanians.
- c) In case of oversubscription, permission has been received from CMSA for the Green Shoe option to be applied whereby excess applications will be allotted shares up to 20% of the IPO;
- d) In the event of an oversubscription beyond the Green Shoe option, available shares shall be allotted on a pro rata basis.

There are no restrictions to the maximum number of offer shares to be applied for.

**Table 9:** Offer Timetable

Offer begins:	Thursday, June 18, 2015
Offer closes:	Thursday, July 30, 2015
Allotment of Shares:	Thursday, August 6, 2015
Announcement of Allotment	Friday, August 7, 2015
Refund cheques to Authorized Selling Agents	Friday, August 7, 2015
Crediting of shares to the CDS accounts	Wednesday, August 12, 2015
Distribution of Depository Receipt	
Listing date and commencement of trading of YETU shares on the DSE	Monday, August 17, 2015



## **Basis of the Offer Price**

The offer price of TZS 500 per share has been found by considering a number of qualitative and quantitative factors. Qualitatively, we note that YETU is taking over the microfinance business from the YOSEFO, which shall however continue to provide support as a major shareholder and provider of all training and technical support services to YETU. Both YOSEFO and its founding directors have made a name for themselves as leading practitioners of microfinance in Tanzania and the Region.

For this reason the Directors felt justified to offer the shares at a premium in recognition of the work that has gone into making YOSEFO amongst the premier MFIs in Tanzania.

Secondly, the valuation used market data to value the shares of YETU on the basis of financial metrics of YOSEFO. These financial multiples are the Price per book value and the P/E ratio. Valuation has also been done using the discounted cash flow (DCF) methodology. A final opinion of value was then given based on a weighted average of the resulting numbers.

The above methodologies yielded the following results:

<b>DCF VALUATION</b>						
	<b>22.7%</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
EBIT		1,102,025	807,725	923,610	1,086,068	1,697,995
Add back: DEPRECIATION & AMORT.		(272,813)	641,462	579,063	642,402	707,461
OPERATING PROFIT		829,212	1,449,186	1,502,673	1,728,470	2,405,457
Less: TAXATION		-	(201,931)	(230,903)	(271,517)	(424,499)
PROFIT BEFORE INTEREST AFTER TAX = NOPLAT		829,212	1,651,117	1,733,575	1,999,987	2,829,956
NET WORKING CAPITAL CHANGES		(1,146,539)	(3,228,656)	(3,980,647)	(1,423,377)	556,861
NET CAPEX		81,518	(2,350,532)	(752,269)	(1,404,536)	(463,938)
FREE CASH FLOW - UNLEVERED		(235,809)	(3,928,071)	(2,999,341)	(827,925)	2,922,879
DISCOUNTING FACTOR		0.8152	0.6645	0.5417	0.4416	0.3600
<b>PV</b>		<b>(192,230)</b>	<b>(2,610,373)</b>	<b>(1,624,840)</b>	<b>(365,626)</b>	<b>1,052,250</b>

<b>VALUATION METRICS</b>	<b>MULTIPLES</b>	<b>PRICE</b>	<b>WEIGHT</b>	<b>WTD VALUE</b>
P/BOOK RATIO VALUATION	1.50	750	1	750
P/E RATIO VALUATION	8.00	1,407	1	1,407
DCF VALUATION		1,440	1	1,440
<b>IPO PRICE - VALUE OF PER SHARE</b>		<b>1,199</b>	<b>3</b>	<b>3,597</b>
<b>IPO PRICE - ROUNDED OFF TO....</b>		<b>1,000</b>		

Based on the above calculations the recommended price of TZS 1,000 per share was judged to be too high for the market and for the intended investors. A stock-split of 2:1 giving 2 new shares for every 1 held – saw this halved to TZS 500 and the number of shares in circulation doubled.

The valuation report was undertaken by the NOMAD based on the financial statements of YOSEFO just prior to the transformation. The Valuation Report is available for inspection at the Issuer's head office.