



Africans
Who Invest

BUILDING WEALTH, CAREERS AND COMPANIES

INTERVIEW GUIDE 07

Growth Equity and Venture Capital

Unit economics, cap tables, liquidation
preferences and how to evaluate a company that
has growth but not yet profit.

How to use this guide

Most private capital in Africa is minority growth or venture. This guide covers the analysis and the cap table maths those interviews test.

Most questions have two layers. **What to say** is a short answer you could give in an interview. The notes underneath explain why it is right, so you can handle the follow-up.

Do not memorise answers word for word. Learn the logic, then practise saying it out loud.

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A note on conventions

Worked examples use a 25% tax rate unless the question states otherwise. Where U.S. GAAP and IFRS differ in a way interviewers ask about, the guide says so. Most African markets report under IFRS; U.S. firms will expect U.S. GAAP. Say which you are assuming.

How growth and venture investing work

Most private capital deployed in Africa is minority growth or venture, not leveraged buyouts. The tools differ: less debt, more focus on unit economics, and a lot of cap table maths.

	Venture capital	Growth equity	Buyout
Stage	Pre-revenue to early revenue	Proven product, scaling revenue, often near profitability	Mature, cash-generative
Stake	Minority, 10% to 25% per round	Minority, sometimes significant; occasionally control	Control
Leverage	None	Little or none	Substantial
Return profile	Most investments lose money; a few return the fund	Fewer losses, lower peak multiples, targets often 3x to 5x	Consistent 2x to 3x; losses rare
Key analysis	Team, market size, product	Unit economics, growth efficiency, path to profit	Cash flow, debt capacity, operational levers

1.1 Why does venture capital accept so many losses?

What to say

Because returns follow a power law. In a typical fund, most companies return less than the capital invested, a few return two to three times, and one or two return ten times or more and drive the whole fund. Venture investors therefore care less about avoiding losses than about making sure they own enough of the winners.

This is why VCs ask "can this be a \$1bn company?" rather than "is this safe?" Growth equity sits in between: it wants companies that have already de-risked the product, and it accepts a lower ceiling in return for fewer zeros.

1.2 What are the funding stages?

Stage	Typical purpose	Investors
Pre-seed and seed	Build the product, find early customers	Angels, seed funds, accelerators
Series A	Prove the business model works repeatably	Early-stage VCs
Series B and C	Scale sales, enter new markets	Growth-stage VCs, growth equity
Late stage / pre-IPO	Fund expansion, provide liquidity to early holders	Growth equity, crossover and sovereign funds

Round sizes and labels vary a great deal by market. In Africa, a Series A is often the size of a U.S. seed round.

1.3 What does a growth investor look for?

What to say

Strong growth, usually 30% or more a year, with evidence that the growth is efficient: healthy gross margins, customers who pay back their acquisition cost quickly and stay, and unit economics that improve with scale. A large addressable market, a capable founder who can build a management team, and a clear path to profitability without needing another round.

Unit economics and metrics

Metric	Definition	What good looks like
ARR / MRR	Annual or monthly recurring revenue from subscriptions	Growing fast and predictably; the base for most SaaS valuation
Gross margin	Revenue less direct cost of delivering it	Software 70% to 85%; marketplaces and fintech vary widely, so ask what is in cost of revenue
CAC	Sales and marketing spend ÷ new customers acquired	Falling or stable as the company scales
LTV	Gross profit per customer per year ÷ annual churn rate	LTV/CAC above about 3x; be sceptical of very high figures built on short history
CAC payback	Months of gross profit needed to recover CAC	Under 12 to 18 months for most software; longer needs a very sticky customer
Net revenue retention	Revenue from last year's customers today, including upsell and churn, ÷ their revenue last year	Above 100% means existing customers grow even with no new sales
Gross churn	Share of customers or revenue lost in a period	Low and falling; monthly churn compounds quickly
Burn multiple	Net cash burned ÷ net new ARR	Under about 1.5x is efficient; above 3x is a warning
Rule of 40	Revenue growth % + profit margin %	Above 40 signals a healthy balance of growth and profitability

Runway

Cash ÷ monthly net burn

Raise with 9 to 12 months left,
not 3

2.1 Walk me through LTV/CAC with numbers.

What to say

A company spends \$1.2m on sales and marketing in a year and wins 400 customers, so CAC is \$3,000. Each customer pays \$2,000 a year at a 75% gross margin, so \$1,500 of gross profit a year. Annual churn is 20%, so the average customer lasts about five years and LTV is \$7,500. LTV/CAC is 2.5x and CAC payback is 24 months. That is workable but not strong; I would want to see churn falling or CAC improving.

2.2 Why are unit economics more important than total profit for a growth company?

What to say

Because a growth company is deliberately unprofitable: it spends today to acquire customers who pay back over years. Total profit tells you how hard it is pressing the accelerator; unit economics tell you whether the engine works. If each customer is profitable over its life, losses are an investment. If not, growth makes the problem bigger.

2.3 How do you value a growth company?

What to say

Mostly on revenue multiples from comparable public companies and recent private rounds, adjusted for growth rate, margin and retention: faster, more efficient growth earns a higher multiple. Then a forward-looking check: if the company hits its plan, what would it be worth at exit at a reasonable multiple, and does that give the fund its target return from today's price? A DCF is possible but rests almost entirely on the terminal value.

Example. A company has \$10m ARR growing 60%. Comparable listed companies growing 30% trade at 6x revenue. Paying 10x, or \$100m, is defensible only if growth is durable; if ARR reaches \$50m in four years and exits at 6x, that is \$300m, a 3x for an investor who owned a constant stake, before dilution from later rounds.

In African markets

Fintech, payments and B2B commerce dominate venture funding on the continent. Two questions matter more than elsewhere: is revenue in hard currency or local currency, and how much of "gross margin" is really payment processing cost that scales with volume? Local investors also weigh regulatory licences heavily; a payments or lending licence can be the moat.

Cap tables and dilution

Every venture and growth interview includes cap table maths. The rules are few; practise until they are automatic.

THE FORMULAS

Pre-money, post-money, ownership

Post-money valuation = pre-money valuation + new money raised.

Investor ownership = new money ÷ post-money.

Price per share = pre-money ÷ shares outstanding before the round (fully diluted, usually including the option pool).

Existing holders' dilution = new money ÷ post-money. Everyone is diluted by the same percentage unless they invest pro rata.

3.1 Worked example: two rounds.

Founders own 100% of a company with 8m shares. A seed investor puts in \$2m at an \$8m pre-money valuation, so \$10m post-money.

Seed round	Shares (m)	Ownership
Price per share: $\$8\text{m} \div 8\text{m} = \$1.00$. New shares: $\$2\text{m} \div \$1.00 = 2\text{m}$		
Founders	8.0	80%
Seed investor	2.0	20%
Total	10.0	100%

Eighteen months later, a Series A investor puts in \$5m at a \$20m pre-money, so \$25m post-money.

Series A	Shares (m)	Ownership
Price per share: $\$20\text{m} \div 10\text{m} = \$2.00$. New shares: $\$5\text{m} \div \$2.00 = 2.5\text{m}$		
Founders	8.0	64%
Seed investor	2.0	16%
Series A investor	2.5	20%
Total	12.5	100%

Everyone who did not invest was diluted by 20%, which is $\$5\text{m} \div \$25\text{m}$. The seed investor's stake fell from 20% to 16%, but its value rose from $\$2\text{m}$ to $16\% \times \$25\text{m} = \$4\text{m}$, a 2x paper gain.

3.2 What is an option pool, and what is the "option pool shuffle"?

What to say

An option pool is shares reserved for employees. Investors usually require the pool to be created or topped up before their round and included in the pre-money share count. That means the pool dilutes founders and earlier investors, not the new investor. A 10% pool created "pre-money" on a $\$20\text{m}$ valuation effectively lowers the price founders receive; negotiate the pool size on the basis of actual hiring needs.

3.3 What is a pro rata right?

What to say

The right to invest in future rounds to maintain your ownership percentage. In the example, the seed investor would need to put $\$1\text{m}$ into the Series A (20% of the $\$5\text{m}$ round) to stay at 20%. Investors fight for pro rata in their best companies; founders try to limit it to keep room for new investors.

3.4 What are SAFEs and convertible notes?

What to say

Instruments used at seed stage to invest now and set the price later. The investor's money converts into shares at the next priced round, usually at a discount to that round's price, or at a valuation cap, whichever gives the investor more shares. A convertible note is debt with interest and a maturity date; a SAFE is not debt and has neither.

Example. A \$500k SAFE with a \$5m valuation cap converts into a Series A priced at a \$10m pre-money. The SAFE holder converts as if the valuation were \$5m, so it receives twice as many shares per dollar as the new investor.

Term sheets and liquidation preferences

Ownership percentage is not the same as share of proceeds. Preferred stock terms decide who gets paid first and how much.

4.1 What is a liquidation preference?

What to say

The right of preferred shareholders to receive their money back, or a multiple of it, before common shareholders receive anything when the company is sold. A 1x preference means they get at least their investment back. Preferences are paid in reverse order of rounds, so the latest investor is usually paid first, unless the rounds rank equally.

4.2 Participating versus non-participating: worked example.

The Series A investor from Section 3 owns 20% for \$5m with a 1x preference. The company is sold.

Exit value	Non-participating	Participating
\$15m	\$5m (takes the preference; 20% would be \$3m)	$\$5m + 20\% \times \$10m = \$7m$
\$25m	\$5m (preference and 20% are equal)	$\$5m + 20\% \times \$20m = \$9m$
\$50m	\$10m (converts to common; 20% beats \$5m)	$\$5m + 20\% \times \$45m = \$14m$

Non-participating preferred takes the greater of its preference or its as-converted share.

Participating preferred takes both: the preference first, then its share of what is left.

Participation is often capped at a multiple, say 3x, above which the holder is better off converting. Founders should resist participation; it is common in down markets and rare in competitive rounds.

4.3 What is anti-dilution protection?

What to say

Protection for an investor if a later round is priced lower than theirs, a down round. Full ratchet resets their price to the new lower price, as if they had invested at it. Weighted average, the market standard, adjusts their price partially, based on how much money is raised at the lower price relative to the company's size. Both shift the dilution from a down round onto founders and unprotected holders.

4.4 What other terms matter?

Term	What it does
Board seats	Investor representation and control of major decisions
Protective provisions	Investor veto over new financings, sale of the company, changes to preferred rights, new debt
Drag-along	Majority holders can force minority holders to join a sale
Tag-along	Minority holders can join a sale on the same terms as the majority
Information rights	Regular financial reporting to investors
Founder vesting	Founder shares vest over time, typically four years with a one-year cliff, so a departing founder does not keep everything
Redemption rights	Investor can require the company to buy back its shares after a set period; rarely exercised, but a lever

4.5 How do venture and growth funds exit?

What to say

Sale to a strategic acquirer is the most common. IPOs are the largest but rarest. Secondary sales to other funds, and sales to a private equity buyer once the company is profitable, have grown. Many investors also sell part of their stake in later rounds to lock in returns.

In African markets

Exits are the central challenge. Local IPOs are rare, so most exits are trade sales to multinationals or larger regional players, or secondary sales to growth funds and DFIs. Term sheets often include stronger investor protections than in the U.S., including redemption rights and currency-adjusted preferences, because of exit and FX risk. Know what those mean for a founder before you defend them in an interview.

Evaluating a growth investment

5.1 How would you evaluate a Series B opportunity?

What to say

Market: how big, how fast-growing, and why now. Product: what problem it solves, how it is differentiated, and evidence customers value it, such as retention and net revenue retention. Unit economics: gross margin, CAC payback, LTV/CAC, and whether they are improving. Team: can the founder build the organisation the plan requires. Financials: growth, burn multiple, runway, and the path to profitability. Deal: price relative to comparables, the terms, and what return the plan delivers at a reasonable exit.

5.2 What would make you pass?

- Growth that depends on paid acquisition with a rising CAC.
- Net revenue retention below 100% in a subscription business.
- Gross margin that does not improve with scale, suggesting a services business priced as software.
- A single channel, platform or regulator the business depends on.
- A founder who cannot explain the numbers.
- A price that requires everything to go right for the fund to earn its return.

5.3 How do you think about a company that is growing fast but burning heavily?

What to say

Ask what each dollar of burn buys. If the burn multiple is low and payback is quick, the burn is an investment with a visible return, and the question is only whether the company can keep raising until it is self-funding. If the burn multiple is high, growth is being bought at a loss and the model may not work at any scale.

5.4 What is a down round, and why does it matter?

What to say

A round priced below the previous round's valuation. It triggers anti-dilution protections, which pushes extra dilution onto founders and employees, can damage morale and signalling, and may cause option grants to be underwater. Sometimes it is still the right choice compared with running out of cash or taking a structured round with heavy preferences.

Market sizing and cohorts

Two analyses that separate candidates in growth interviews: sizing a market from the bottom up, and reading a cohort table.

6.1 What are TAM, SAM and SOM?

What to say

Total addressable market is everything the product could theoretically serve. Serviceable addressable market is the part the company can reach with its current product, channels and geography. Serviceable obtainable market is the share it can realistically win. Founders quote TAM; investors care about SAM and the path to a credible share of it.

6.2 Top-down or bottom-up?

What to say

Bottom-up, always, with top-down as a sanity check. Top-down starts from an industry report and takes a percentage, which is unfalsifiable. Bottom-up counts customers and multiplies by what each can pay, so every assumption can be challenged and tested in diligence.

Worked example. A company sells inventory software to small retailers in Nigeria at \$20 a month.

Step	Assumption	Result
Registered micro, small and medium enterprises	about 40m	40m
Retail and trade share	40%	16m
With a smartphone and enough volume to need software	15%	2.4m
Willing to pay a subscription today	20%	480,000
SAM at \$240 a year		\$115m
Realistic share in five years	10%	\$11.5m revenue

Now the conversation is useful: is 15% the right smartphone-and-volume filter, and is \$20 a month affordable at that customer size? Those are diligence questions with answers. "The African retail software market is \$2bn" is not.

Figures illustrative. Use the most recent official enterprise statistics for the market you are sizing and say where the number came from.

6.3 How do you read a cohort table?

Each row is the group of customers acquired in one period; each column is how much of that group, or their revenue, remains later.

Cohort of 100 customers	Month 0	M6	M12	M18	M24
Customers retained	100	90	85	82	80
Average revenue per customer	\$100	\$100	\$110	\$115	\$120
Cohort revenue vs. month 0	100%	90%	94%	94%	96%

What it tells you. Logo retention is 80% at two years, so one customer in five leaves, but the survivors spend more, so revenue retention is 96%. That pattern, churn in the small accounts and expansion in the large ones, is common and healthy. The warning sign is the reverse: stable customer counts with falling revenue per customer, which means discounting.

Ask for cohorts by acquisition period. If the newest cohorts retain worse than the old ones, the company is buying lower-quality customers as it scales, and the blended metrics will deteriorate later.

6.4 What other efficiency measures do growth investors use?

Measure	Definition and use
Magic number	Net new ARR in a quarter ÷ prior-quarter sales and marketing spend, annualised. Above about 0.75 suggests it is worth spending more
Quick ratio	(New + expansion ARR) ÷ (churned + contraction ARR). Above 4 is strong growth with low leakage
Sales capacity and quota attainment	Whether growth comes from more reps or better reps. Hiring-driven growth is easier to buy and easier to break
Gross margin by revenue line	Separates software margin from services and hardware. Blended margin hides a lot
Contribution margin per unit	For marketplaces and delivery: revenue per order less all variable costs. The real test of whether scale helps

Sector metrics beyond software

Most African growth deals are not classic SaaS. Each model has its own metrics and its own way of flattering itself.

Model	Headline metrics	What to interrogate
Marketplace	GMV, take rate, net revenue, orders per buyer, supply and demand liquidity	Is GMV being reported as revenue? Is the take rate sustainable, or subsidised? Do buyers return without discounts?
Payments and fintech	Total payment volume, net revenue after processing costs, revenue per transaction, float income	How much of gross revenue is passed to schemes and banks? Is float income interest-rate dependent? Licence risk?
Lending	Loan book, yield, cost of funds, net interest margin, non-performing loans, cost of risk, collection rates	Are losses recognised early enough? Does growth hide vintage losses? Where does funding come from and how quickly can it disappear?

Consumer subscription	Subscribers, ARPU, monthly churn, payback, content or product cost per user	Monthly churn compounds: 5% monthly is 46% a year. What share of subscribers are on free trials or discounts?
B2B commerce and distribution	Revenue per outlet, gross margin, working capital days, drop size, delivery cost per order	Is it a software business or a low-margin distributor? Working capital intensity as it scales
Asset-heavy models (mobility, energy, logistics)	Utilisation, revenue per asset per day, asset life, maintenance cost, payback per asset	Is growth funded by equity buying assets? Would debt or leasing be cheaper? What is the residual value?
Health and education	Capacity utilisation, revenue per patient or student, retention, regulatory licences	Reliance on government reimbursement or fee affordability; staffing constraints

7.1 A company reports \$200m of GMV and a 12% take rate. What do you want to know?

What to say

Net revenue, which is about \$24m, and then what sits inside it: payment and delivery costs, incentives to buyers and sellers, and refunds. Many marketplaces show a healthy take rate and a negative contribution margin once incentives are counted. I would also ask what share of GMV comes from repeat buyers, because that separates a marketplace from a subsidy programme.

7.2 How do you assess a lending business?

What to say

Look at unit economics per loan: yield less cost of funds less credit losses less servicing cost. Then look at vintage curves, losses by the month the loan was written, because a fast-growing book always looks clean on a blended basis. Then funding: who provides it, at what cost, and whether it is committed. A lender with mispriced risk and cheap funding grows beautifully until the funding stops.

Fund maths and portfolio construction

Venture and growth interviews test whether you understand the fund as well as the deal. The fund's size and structure decide which deals are worth doing at all.

8.1 Why does fund size determine what a fund can invest in?

What to say

A fund has to return a multiple of its whole size, so each position must be able to move the needle. A \$100m fund deploying \$4m cheques for 10% stakes needs exits of roughly \$40m to return \$4m, but needs at least one exit near \$1bn to return the whole fund from a 10% stake. That arithmetic is why small funds can back modest outcomes and large funds cannot.

Worked example. A \$100m fund targeting 3x gross must return \$300m. With 20 investments and the usual power law, the plan might be: one investment returning \$150m, three returning \$30m each, six returning capital, and ten writing off. If no single company can plausibly reach a valuation where the fund's stake is worth \$150m, the strategy does not work regardless of how good each company is.

8.2 What are reserves, and why do they matter?

What to say

Capital held back to follow on into the winners. A fund that deploys everything in first cheques gets diluted through later rounds precisely in the companies it most wants to own. Many funds reserve roughly half of the fund for follow-ons, and the decision about which companies get reserves is where most of the fund's return is made.

8.3 Show me how ownership erodes to exit.

A seed fund buys 20% and does not follow on. Each later round sells the percentage shown.

Round	New investor takes	Seed fund's stake after
At seed	20%	20.0%
Series A	20%	16.0%
Series B	20%	12.8%
Series C	15%	10.9%

The stake almost halves without the fund doing anything wrong. At a \$500m exit it is worth about \$54m; had the fund exercised pro rata rights it would own more but have invested more. This is the calculation behind every follow-on decision.

8.4 What are DPI, TVPI and the J-curve?

What to say

DPI, distributions to paid-in, is cash actually returned divided by cash drawn: realised returns. TVPI adds the value of what is still held, so it includes unrealised marks. Early in a fund's life, fees and losses come before gains, so reported returns are negative before turning up: the J-curve. Investors treat a high TVPI with a low DPI sceptically, because marks are opinions.

8.5 How are venture and growth funds' returns judged against private equity?

What to say

On the same metrics, net IRR and multiple, plus benchmarks for the vintage year, since a 2013 fund and a 2021 fund faced different markets. Venture is judged more on the multiple than the IRR, because the winners take years to mature, while buyout is judged on both.

Structured rounds, venture debt and diligence

9.1 What is a structured round?

What to say

A round that keeps a headline valuation high by giving the investor extra economics instead: a multiple liquidation preference, participation, guaranteed returns, ratchets tied to milestones or an IPO price, or full anti-dilution. The founders can announce a flat or up round, but the economics resemble a down round. When you see a valuation that looks too good in a hard market, ask for the term sheet.

Example. A 2x participating preference on a \$50m investment means the investor takes \$100m off the top before anyone else is paid. At a \$150m exit, common shareholders split \$50m rather than the two-thirds their percentage implies.

9.2 What is venture debt, and when does it make sense?

What to say

Loans to venture-backed companies, usually alongside or shortly after an equity round, priced with interest plus warrants and often secured on the whole business. It extends runway without dilution, which suits a company with a clear milestone ahead and cash to service the loan. It is dangerous for a company with no revenue and no next round, because the lender's repayment schedule does not care about the product roadmap.

In Africa, venture debt has grown quickly, particularly for lenders and asset-heavy models where the debt funds a loan book or equipment rather than operating losses. The important distinction is whether the debt funds an asset that generates cash or funds the burn.

9.3 What is a bridge round, and how do you read one?

What to say

A short-term raise, usually from existing investors, to reach a milestone before a priced round. An inside bridge from supportive investors can be a good sign. A bridge that follows a failed fundraise, or that existing investors decline to join, is often a sign the next round will not happen.

9.4 What does growth-stage diligence actually involve?

Workstream	What you ask for
Commercial	Cohort data by acquisition month, revenue by customer, pipeline and win rates, pricing history, churn reasons
Customer references	Calls with current, churned and prospective customers. Churned customers are the most informative and the most often skipped
Financial (quality of earnings)	Revenue recognition policy, one-off items, true gross margin, capitalised costs, related-party transactions
Technology	Architecture review, technical debt, key-person dependence in engineering, security
Legal and regulatory	Cap table and share issuance history, IP ownership, licences, employment contracts, data protection
Management	Referencing the founders, assessing gaps in the team, and whether the plan implies hires nobody has started recruiting

Cap table clean-up is a recurring problem in emerging-market deals: missing share certificates, undocumented SAFEs, promises of equity to advisers. Diligence should reconcile the cap table to signed documents before the money moves.

9.5 How do you underwrite a growth deal's return?

What to say

Project revenue to the exit year, apply an exit multiple lower than the entry multiple to be conservative, then work back through expected dilution from future rounds to the value of your stake. Compare that with your entry price for a multiple and an IRR, and run a downside where growth halves. If the deal only works at a constant multiple and no further dilution, it is priced for perfection.

Example. Invest \$20m for 15% at a \$130m post-money. Revenue grows from \$15m to \$60m in four years. Exit at 6x revenue gives \$360m. Dilution of 25% across two later rounds reduces the stake to about 11.3%, worth about \$40m: roughly 2.0x and a 19% IRR. Attractive but not spectacular, and worth stress-testing on the exit multiple.

Test yourself

#	Question
1	An investor puts \$3m into a company at a \$12m pre-money valuation. What is the post-money and the investor's stake?
2	The company has 6m shares before the round. What is the price per share and how many new shares are issued?
3	A founder owns 50% before a round that sells 25% of the company. What does the founder own afterwards?
4	CAC is \$500. Gross profit per customer is \$30 a month. What is CAC payback?
5	Monthly churn is 3%. Roughly what is annual churn, and what is the average customer lifetime?
6	A company burned \$6m to add \$3m of net new ARR. What is the burn multiple, and is it good?
7	An investor holds 25% with a 1x non-participating preference on \$10m invested. The company sells for \$30m. What does the investor receive?
8	Same facts, but the preference is participating with no cap. What does the investor receive?
9	Revenue grew 50% and the operating margin is -20%. Does the company pass the Rule of 40?
10	A \$1m SAFE with a \$4m cap converts in a round at an \$8m pre-money. How many times more shares per dollar does the SAFE holder get than the new investor?

ANSWERS

Answers

#	Answer
1	Post-money \$15m. Stake $\$3\text{m} \div \$15\text{m} = 20\%$.
2	$\$12\text{m} \div 6\text{m} = \$2.00$ per share. $\$3\text{m} \div \$2.00 = 1.5\text{m}$ new shares, giving 7.5m total and $1.5 \div 7.5 = 20\%$.
3	$50\% \times (1 - 25\%) = 37.5\%$.
4	$\$500 \div \$30 \approx 17$ months.
5	$1 - 0.97^{12} \approx 31\%$ annual churn. Average lifetime $\approx 1 \div 0.03 \approx 33$ months, under three years.
6	2.0x. Mediocre: acceptable for an early company, a concern at Series B or later.
7	Greater of \$10m preference or $25\% \times \$30\text{m} = \$7.5\text{m}$. Takes the \$10m preference.
8	\$10m preference plus 25% of the remaining \$20m = \$15m.
9	$50 + (-20) = 30$. No.
10	Twice. The SAFE converts at a \$4m valuation while the new investor pays at \$8m.

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