

MEDIA RELEASE

Section 12J

Putting your tax Rands to work for a better South Africa

One of the first entrants to the South African 12J venture capital landscape is celebrating its fourth year of profitable returns to shareholders. Anuva Investments Ltd (Anuva) reported R14.1 million in profit for its 2018 financial year and distributed R10.5 million to its Class-A shareholders – achieving an impressive 8% dividend yield. “We were incorporated in 2014 as a section 12J compliant venture capital company (VCC) making us the perfect partner for South African taxpayers looking to maximise the tax allowance on offer under section 12J of the Income Tax Act,” says Neill Hobbs, co-founder and CEO at Anuva Investments. The company has already raised more than R235 million in capital.

Section 12J is South Africa’s answer to a popular business expansion scheme launched in the United Kingdom in 1994 – the Enterprise Investment Scheme. The tax incentives offered to UK investors under this scheme underpinned investments in more than 25000 small unlisted UK-based businesses over the decade ending 2015. In July 2009 the South African Revenue Services (SARS) introduced a similar tax incentive to encourage ordinary South African taxpayers to invest into qualifying small, medium and micro-sized enterprises (SMMEs) via an approved 12J VCC. Section 12J seeks to stimulate the local economy and create jobs by offering taxpayers a 100% tax allowance on investments into companies that meet certain qualifying requirements.

Ordinary taxpayers can claim the full tax allowance provided they remain invested in the section 12J compliant opportunity for a period of five years. Although capital gains tax rules apply upon exiting such investments, financial modelling confirms greater efficiency using a 12J in a CGT scenario, together with the potential for significant returns over that period and thanks to the upfront tax allowance.

Interest in section 12J investments picked up in 2014 as investors sought to alleviate their rising tax liabilities on the one hand and bolster ailing investment returns on the other. VCCs offering section 12J structures soon emerged as the preferred instrument for taxpayers to avail of the 12J tax allowance. (VCCs that register with the tax authority as section 12J investment companies can raise capital from taxpayers and invest this capital in qualifying SMMEs, referred to in the legislation as investee firms). Analysts warn that investors should seek out VCCs that stick to the spirit that SARS has for 12J and to invest in real companies that grow the economy, that create employment and who have the potential to deliver long term financial value on the back of high quality investments, rather than purely focusing on the upfront tax benefit.

Anuva’s investment team identifies and invests in SMMEs that show real growth potential. “We partner with great companies that have the potential for growth and work with them to improve their competitive position,” says Larry Worthington-Fitnum co-founder and Director at Anuva. “Our role includes providing equity capital and strategic management assistance and mentorship to these firms with the aim to grow their operations, their capacity and to improve productivity”. The growth achieved through these

investments should combine with the section 12J tax allowances to deliver remarkable multi-year returns to investors.

Recent acquisitions in services, communication, health and accommodation-focused businesses will ensure that investors benefit from portfolio diversification and the resulting reduction in shareholder risk. In 2018 Anuva acquired 50% interests in Mastercare Mobile Coastal and NuMobile Gauteng as well as a 46% stake in Cape Mohair, a specialised diabetic, designer and sports sock manufacturer. The equity provided in this transaction purchased manufacturing equipment that unlocks capacity increasing maximum volumes from 80 000 pairs per month to 245 000 pairs, without a significant increase in costs. Anuva also has a 69% interest in Mastercare, a household and domestic services company that provides assessment and repair services to households and the insurance industry. Over the last year there has been a core focus on reviewing the portfolio company's strategies and implementing key interventions.

"Section 12J empowers ordinary South Africans to divert some of their tax dues to invest in SMMEs that have the potential to grow wealth, grow the economy and create jobs," concludes Larry Worthington-Fitnum. "The tax allowance encourages capital creation in a sector that has long been singled out as a growth driver for the economy and therefore good for South Africa – our investments into qualifying companies have created or saved more than 356 jobs over the past three years, with more in the pipeline".

"Anuva is an extraordinary opportunity that creates long term shareholder value by skilfully combining capital with select opportunities under the guidance and mentorship of an expert investment team – the returns on offer from our investment activities are enhanced by the generous tax allowances under section 12J".

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About Anuva Investments

Anuva Investments Ltd is a section 12J compliant Venture Capital Company (VCC) that creates value by skilfully combining capital with selected business opportunities, under the guidance of an expert investment and management team. Anuva was incorporated in 2014 in accordance with section 12J of the South African Income Tax Act and has raised more than R235 million in capital since. It is licensed with the FSCA as required under the Financial Advisory and Intermediary Services Act.