

Case Study: Koba International Group S.A.

Koba's Story

Koba International Group was founded in 2009 as the first chain of retail stores operating under the "hard discount" format in Colombia. Hard discount stores differ from traditional supermarket chains or bargain stores by offering a limited selection of food and basic consumer goods—for example, 550-750 stock keeping units (SKUs) versus 20,000-30,000 SKUs available at a typical U.S. supermarket. The company's low prices are achieved through its high buying power per SKU, reliance on its own distribution network, the elimination of intermediaries and other inefficiencies, the use of private label products manufactured by specialized suppliers, and by applying simple management principles at the stores and across all business functions.

In July 2010, Koba's founder approached The Abraaj Group looking for capital. While opening about a dozen stores in Colombia, Koba had come close to exhausting its capital and needed additional funds to continue



its expansion plans. After analyzing the investment—including studying how the hard discount business model could work in other global growth market settings—the Abraaj team concluded that there was a strong business and microeconomic rationale for the deal. With the Colombian retail market characterized by a duopoly of firms that were charging high prices as well as inefficient mom-and-pop shops, Koba's mission to offer Colombian households high quality products at low prices was compelling. Abraaj made an initial investment in December 2010 to acquire a significant minority stake in the company.

The Role Played by Private Capital

For Abraaj, the prospect of investing in Koba presented an attractive opportunity to break new ground. At the time the firm approached Abraaj, it had been in operation for less than a year and few people in Colombia understood the hard discount retail format. Abraaj believed that it would be able to add value to the firm by accelerating Koba's growth through its capital injection (as well as by facilitating funding from other investors) and by advising the predominantly expatriate management team on the nature of doing business in Colombia. Additionally, Abraaj subscribed to a value creation plan (VCP) for Koba that focused on two main objectives: (1) replicating the hard discount model throughout Colombia, and (2) strengthening the governance, management team and key business areas of the company.

Abraaj understood that Koba needed to remain true to simple management principles, improve purchasing terms, introduce private

label products, and optimize the company's logistics and distribution processes. With Abraaj supporting specialized advisors and providing the necessary guidance and funding, the company was able to expand from around 20 stores at the time of investment to over 500 stores as of September 2016, serving over 10 million customers (tickets) per month. Koba's geographical footprint expanded as well, increasing its presence from one region in 2010 to six regions in 2016.

As Koba increased its outlets and top line revenues, it leveraged its scale to attain better purchasing terms, and also began importing specialty products to strengthen its assortment. Such measures enabled a transfer of savings to Koba's customers of anywhere between 20% and 50% compared to alternatives in the market. Through roughly 300 suppliers, Koba began developing high quality private label products that soon replaced more expensive commercial brands. ▶

The Company



Essentials

Company: Koba International Group S.A. / Koba Colombia S.A.S.

Website: tiendasd1.com

Country: Colombia

Sector: Food retailer and wholesaler

Business focus: Supermarket chain

Size: US\$419.8 million in revenue (FY 2015)

GP: The Abraaj Group, a private equity firm focused on global growth markets (abraaj.com)

Dates of investment: December 2010, May 2011, February 2013, December 2013 and May 2014

Investment: Abraaj exited its stake in Koba in September 2016 through a sale to a private equity group

Impact Highlights

Koba, the first hard discount retailer in Colombia, offers high quality food and basic staples at prices that can be up to 50% cheaper than those offered by traditional retailers. Considering that low- and middle-income families typically spend a large portion of their money on such goods, these savings have had a material impact on their daily lives. With over 500 stores in operation to date—up from around 20 at the time of investment—Koba now serves over 10 million clients (tickets) per month.

At the time of Abraaj's investment, Koba had 184 employees; as of August 2016, the company had created over 5,400 formal jobs, of which 49% have been filled by women. Koba has also helped generate thousands of indirect jobs through suppliers that have grown along with the company.

Company employees are paid above average salaries and receive all legal benefits in Colombia. Furthermore, Koba has implemented well established growth plans and training programs that can effectively help entry-level store clerks advance to the highest positions in the company.

The Company View

“With Abraaj’s timely investment in Koba and its dedicated support from then on, the company has been able to grow at a staggering pace, generating a significant amount of jobs while providing Colombian households with high quality goods at very affordable prices.”

Ximena Malagón
CEO, Koba Colombia S.A.S.

IMPACT HIGHLIGHTS

	Initial Investment	July 2016
Revenue (US\$m)	6.4	419.8 (FY 2015)
# of employees	184	5,246
Women as % of employees	44%	49%
Investments in local communities (US\$)	2,762	0.2 million (FY 2015)
Local taxes paid (US\$)	303,378	12 million (FY 2015)

▶ At the time of Abraaj’s investment, Koba was a young organization and lacked the appropriate corporate governance and resources to support its ambitious growth plans. Abraaj’s work focused on strengthening Koba’s charter, corporate governance, controls and management team. Additionally, being the first institutional investor in the company and the only local investor at the time, Abraaj played a pivotal role in finding appropriate auditors and advisors, and in facilitating credit relationships. Koba’s current Chief Executive Officer and Chief Financial Officer were sourced by Abraaj.

Through its tenure as a shareholder, Abraaj was supportive and oftentimes the promoter of key initiatives such as: (1) implementing an employee stock incentive program; (2) strengthening and giving more formality to the operation of the Board; (3) creating an Executive Committee to discuss operational



and financial matters in greater detail; (4) introducing Koba’s code of ethics; (5) enhancing internal and external auditing functions; (6) strengthening key management positions; and, (7) implementing a Health & Safety (H&S) Management System, which included promoting the use of personal protective equipment and creating emergency preparedness and response procedures, among others.

Beyond the Bottom Line

Colombia’s retail sector has traditionally been largely characterized by informal employment and limited career opportunities—particularly in small-scale and fragmented neighborhood stores. At the time of Abraaj’s investment, Koba’s employees totaled 184 workers; as of August 2016, the company has created more than 5,400 formal jobs, of which 49% have been filled by women. Koba has also helped generate thousands of indirect jobs through approximately 300 suppliers that have grown along with the company. Ample on-the-job training is offered to Koba’s staff with the goal of providing attractive opportunities for advancement both inside and outside the company. Employees are paid above market wages and receive all health and pension benefits.

In partnership with Abraaj and other shareholders, Koba has focused on working with and positively impacting the communities in which it operates. Koba hires from local

communities, and liaises with local governments and community colleges for recruitment purposes. In addition, the company seeks gender equality and actively recruits women who are heads of households, as well as people with disabilities. Koba also regularly donates non-marketable products to local food banks.

As Koba’s workforce and operations have expanded, the company has implemented a number of measures to reduce its carbon footprint. For instance, Koba’s hub and spoke distribution system is designed to maximize efficiencies while reducing fuel consumption as well as the number of trips made by delivery trucks. The company is using new, energy efficient refrigerators and electric equipment, and was the first retailer in Colombia to sell reusable packages in order to dissuade the use of plastic bags. In 2015, Koba also established a comprehensive waste management and recycling program, and has successfully disposed of over 3,000 tons of cardboard and 250 tons of plastic.