AVCA Member Profile:
Verod Capital

Verod Capital is a generalist private equity firm based in Lagos, Nigeria which invests in Nigerian companies with the objective of expanding many of them into sub-Saharan Africa. Verod Capital's co-founder and managing director, Danladi Verheijen, grew up in Nigeria but was educated at Stanford University and Harvard Business School, and started his career in the U.S. with McKinsey & Company before moving back home to Lagos.

When Danladi returned to Nigeria in 2001, he gained operational experience at a principal investment firm, Ocean and Oil Holdings, followed by Citibank Nigeria, where he led corporate finance and investment banking transactions, and also had responsibility over Citibank's equity investment portfolio. In early 2008, Danladi left Citibank to set up Verod Capital with co-founder Eric Idiahi. Danladi was named a Young Global Leader by the World Economic Forum in 2014. AVCA talks with Danladi about Verod Capital's journey.

Q: How did Verod Capital come into being?

A: In the lead up to 2008, all of my senior colleagues within the Corporate Finance practice at Citibank in Nigeria had left to join other companies or start new ones. It was an exciting time. By January 2008, I was ready to embrace a new adventure and Verod Capital came to life, but then markets crashed globally.

When we started Verod Capital in 2008, we had no institutional track record, so our first eight transactions were done on a deal-by-deal basis. It was a tough start; we could not charge management fees, only carry and so the pressure and alignment around performance was significant! Fortunately, we'd also been approached to do some advisory work, which we took on selectively to keep the lights on; whilst, we allowed each of our portfolio companies time to grow! Since successfully moving into carry, we have put a halt to our advisory work and now focus solely on our private equity portfolio.

Q: How has the industry evolved in the time since Verod Capital was set up?

A: When we started, the only indigenous group in Nigeria was African Capital Alliance. By indigenous, I mean firms with a full, permanent and exclusive presence

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Danladi Verheijen
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on-the-ground rather than those headquartered elsewhere but with offices on the continent. Since 2008, other groups have emerged.

Today, the likes of Carlyle have offices in across Africa, and KKR and Blackstone are in Nigeria frequently. This shows the genuine interest in, and a lot more awareness of, private equity in Africa. Business owners have also grown in their acceptance of and appreciation for private equity providers as their partners to help develop and expand their businesses.

In terms of those seeking to invest in the asset class in Africa, there is a lot more interest from institutional investors globally, including from North American pension funds and other institutions. There were many institutional investors at AVCA's annual conference this year in Lagos, Nigeria, that came to see things for themselves. I met two investors from the same pension fund system in Alaska at the AVCA conference! It certainly feels like the beginning of a tidal shift; although it could be 5 years or so before the levels of interest translate into fund commitments.

The pace of change is increasing; individuals and teams are spinning out of banks and advisory firms, providing Nigerian, and the West African private equity markets greater depth and breadth. This is not surprising as there is an abundance of opportunities at the small-to-medium end of the market – more than enough to accommodate the increasing amounts of capital available to be deployed – and an increasing universe of exit routes given the extent of activity from the mega-cap private equity houses in the region.

Q: Verod Capital's strategy is not atypical of private equity firms. Can you explain how it works?

A: We have a very hands-on, operational approach. First, we believe being local conveys an advantage in market intelligence, deal sourcing and diligence, especially in a market without many formal sources of information and data. With portfolio companies, aside from the more typical role private equity firms play in assisting to develop the company's strategy and monitoring the execution of that strategy from a board perspective, we go a bit further and, in many cases, visit companies daily, co-sign cheques, oversee legal functions and even recruit directly ourselves (we have in-house recruitment specialists and we have hired over 100 people directly into our companies).

We believe this approach with companies is necessary to mitigate risk. We know Africa is the land of opportunity – for us, a relentless focus on execution and minimizing the downside is therefore paramount. In Africa, the extent of opportunity and new ideas is obvious and easy to grasp – being successful at consistently building strong, high growth businesses is all about execution.

Q: As Verod Capital matures, will its strategy change?

A: Our core focus on building operational expertise will not change; it's been the hallmark of our success to date and has provided significant value-add to our portfolio companies. About 12 months ago, we needed to expand Verod's senior executive team – we were faced with the decision of how best to complement and build on our existing expertise. We could have chosen a person with institutional investing experience. Instead, we hired Mr NK Somani as a Director and Senior Operating Partner. He has 38 years of operational experience of building companies, predominantly in the consumer and light industrial business segment in Nigeria. His most recent corporate roles were at the Dangote Group, where as CEO of Dangote Sugar, he successfully ran the firm and took it public in 2006. He was also Group CEO of Dangote Flour, where he successfully grew the business and sold it to a strategic investor.

Q: Will you expand your geographic focus beyond Nigeria?

A: Our ethos has remained the same to date: to focus on one market, Nigeria. Nigeria has 160 million people hungry for products and services. Nigeria's economy equals the size of 44 other African countries combined. I think that is large enough for us!

Nevertheless, we encourage our portfolio companies to move beyond Nigeria as quickly as possible and we have helped a few of them do that. As a general partner, we don't think we will have much of an advantage over the specialists domiciled and only focussed on North Africa, or East Africa, or South Africa, for example. So it makes sense to focus on our strengths and maintain our focus on Nigeria as a core hub.

Q. In 2013, Verod Capital won Private Equity Africa's African Large Cap Exit of the Year.

What was special about the deal and will we see similar deals from Verod Capital in the future?

A: Yes, GZ Industries (GZI) is a very successful investment which earned us the award. GZI is an aluminium beverage can manufacturer and began as an 'imported start-up'. This implies taking an existing business from developed markets and launching it into a new emerging market instead of simply importing the finished product. It was not a new product in Nigeria as cans were previously imported into the country, however, local manufacturing provided a cheaper source of cans for our customers and reduced order/delivery times from several months to less than a week, thereby dramatically improving our customer's supply chain for empty cans and allowing us to gain significant market share. Today, GZI's annual production capacity exceeds 1.2 billion aluminium cans; more than double the capacity when the initial factory came on stream. By next year, GZI will have the ability to produce up to 3.6 billion cans per annum in Nigeria and East Africa.

Despite GZI's success, we will limit our greenfield import substitution businesses opportunities to a maximum of one third of our portfolio. Although we don't take demand risk (since they are replacing imports), there is a lot of execution risk involved and the resources required from the general partner is significant. We don't have the capacity to have a portfolio full of these. If you get it right, however, the economics are compelling - GZI went from zero to US$100 million run-rate in sales within 7 months. It is an incredible success story we're very proud of.

Q: Has AVCA been of value to you?

A: AVCA has certainly been of value. It has helped us gain an understanding of the mind-set of institutional investors. AVCA has also provided an interesting and valuable networking platform for us and we have learnt a lot from the experiences of other general partners.

Q: As your final words, what challenges and opportunities does investing in Nigeria present you with?

A: I don't see challenges - I only see opportunities. The primary bottleneck is capacity to screen and diligence more deals, close investments, add value to and grow portfolio companies. There are so many opportunities left untouched and we just need to find the right people to help us execute. Like everything worth waiting for, investing in Africa requires patience and fortitude, but with the right tools and mind-set, there is so much that can be achieved.

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