



Chike Obianwu
Partner, Finance and
Corporate Law

Templars is one of the foremost and largest full-service law firms in Nigeria. They are fully equipped to help clients in navigating the peculiar challenges of the Nigerian business environment. The firm prides itself on the commercial astuteness of its lawyers, and their practical, risk-conscious and solutions-focused approach to legal practice. Templars covers diverse areas of law including Private Equity & Investment Funds, Mergers & Acquisitions, Corporate and Commercial law, Energy and Natural Resources, Telecommunications, Foreign Investment, Banking & Finance, Taxation, Litigation and Commercial Arbitration, Alternative Dispute Resolution, Project Finance etc.

AVCA speaks to Chike Obianwu, Partner of Templars about the firm’s history, new legislation moving the Nigerian private equity and venture equity ecosystem forward and their hopes for the industry.

Q: What is the history of the firm and how has it evolved over the years? What are your key strengths in the PE space?

Templars was established in 1995 with a strong focus on the oil and gas and energy sectors. Within a few years of existence, the firm’s partners were determined to grow the firm and diversify its offering. We are now a full service law firm among the best in Lagos and the largest in Nigeria. In addition to our longstanding expertise in the oil and gas and energy sectors, we’ve developed leading specialities in commercial and tax law, alongside a very vibrant and well-known dispute resolution team. Our PE practice sits within our larger M&A practice and we have over 20 lawyers. We offer a complete range of services for PE firms and have extensive experience in advising on fund formation and investments. There’s a natural fit with the energy and power industries given our historical ties in those areas, but we also have in-depth knowledge in financial services, consumer goods and real estate.

Q: How has the Nigerian PE and VC ecosystem evolved in recent years? What is your outlook for the medium-term?

Looking at the Nigerian PE landscape a decade ago, it was largely dominated by firms like African Capital Alliance, Actis and CDC, all three of which had a substantial local presence and were very active. Over the last few years, we’ve witnessed the growth of a number of smaller Nigerian GPs who have managed to close several funds thanks in part to the likes of the IFC, CDC and the Nigeria Sovereign Investment Authority. Another important dynamic is that, thanks

NAME OF PROFESSIONAL SERVICES FIRM

Templars

FIRM TYPE

Professional Services Firm

PROFESSIONALS FOCUSED ON AFRICA

30

to changes introduced by the Nigerian Pension Commission, Nigerian pensions fund managers are now able to invest in PE as an asset class. Notably, we are proud to have been involved in the formation of the first infrastructure fund to be approved by the Securities and Exchanges Commission (SEC). Finally, we have seen an increase in the number of secondary trades among PE firms, given the higher number of PE firms operating in the country.

The VC space had traditionally been dominated by such firms as African Capital Alliance’s SME Manager which looked at smaller size portfolio companies. Over the last couple of years, we have witnessed the exponential growth of the VC sector. An exciting development is the rise of incubators which seek to attract top talent and provide seed funding to turn ideas into viable solutions. These activities are complemented by the likes of the Tony Elumelu Foundation which encourages entrepreneurship.

In terms of outlook, Nigeria has successfully weathered challenges over the last few years and in the short- to medium-term, the market will continue to grow. It’s been encouraging to see a number of local firms closing funds over the last few

months. The pre-election period wasn't particularly characterised by a slowdown in deal flow and many investors sought to close transactions immediately prior to the poll, though some others adopted a "wait and see" approach. Interestingly, we haven't witnessed a slowdown in oil and gas deals, which is surprising given it is a government-intensive sector where investors are keen on having a stable policy environment.

Q: What proposed legislation or regulation have the potential to impact the PE sector?

There are two pieces of new proposed legislation that are likely to have a wide-reaching impact on the PE sector. The first is the Federal Competition and Consumer Protection Act, which became law in January 2019. The law aims to clarify competition regulation and to create a competition commission that will conduct merger control and competition review. The law prescribes a radically different review regime from the previously applicable procedures. Unfortunately, there are a number of unintended but painful challenges of transition from the old to the new regime. And at the moment, there's a lack of clarity as to what value thresholds would bring transactions within the scope of the new regime. The hope is that the new regulator will set these thresholds at levels that allow relative simple and low value transactions to be completed without the requirement for complicated regulatory oversight. The second significant development is the ongoing revision of the outdated Companies and Allied Matters Act (CAMA) of 1990. If the revised bill becomes law, it will have an important impact, for instance with regard to things like financial assistance in the course of leveraged acquisitions, which is not currently allowed; and share buybacks, which are currently only permissible in severely limited instances. The bill will also introduce provisions for company rescue, and will allow for limited partnerships, limited liability partnerships, and single-director and single-shareholder companies, all of which are currently either not permitted or only permitted in Lagos State.

Q: What are investors looking for in Nigerian PE and what challenges do they face? What sectors are the most attractive and why?

Besides returns, investors are looking for clarity on how regulations and legislation are applied, as well as stability and predictability in terms of policy. These are key points for investors coming into the country and areas where progress can be made. With regards to challenges, the foreign exchange crisis of 2015 and 2016 had a major impact on investor confidence, though this has largely been resolved. There's a real need for instruments that allow investors to hedge in relation to the Naira and while these products do exist, their cost is usually prohibitive. Additionally,

adequate warranty and indemnity insurance policies for deals are expensive and also difficult to find. We are likely to see an increase in the number of transactions in the country if a market for such policies develops.

In terms of sectors, we have seen many deals in the healthcare sector, where PE funds have invested in health facilities and also in equipment manufacturers and providers. Nigeria is a major source of medical tourists who spend significant amounts going to the UK, US, India and South Africa etc for medical treatment given the lack of best-in-class facilities in Nigeria. PE funds have identified this opportunity and we've seen a handful of transactions close in this space. Beyond healthcare, technology and fintech are booming and we have also seen significant activity in the financial services sector. Finally, consumer goods, agribusiness and utilities have all attracted major interest.

Q: Templars recently published a piece on unlocking investment in Nigeria's power sector. What are the sector's main challenges and how might they be overcome so that private capital can play a greater role?

The power sector suffers a number of challenges, which can broadly be termed as bankability issues. The key issue is that the electricity tariffs currently in place are not cost-reflective, meaning that projects are unbankable without external support from the government, DFIs or the World Bank. Deregulation is a potential solution, though it would have to be managed, to ensure that end users are still able to pay for their power consumption. Given that not all projects can secure government or donor guarantees, there's a persistent underinvestment in power generation across the country. Additionally, there's a shortage of gas infrastructure owing to the fact that the price of gas is regulated and is not cost-reflective. As a result, there's a lack of investment in gas distribution and processing. Finally, the Nigerian Bulk Electricity Trading plc, which is backed by the Nigerian government and is the sole purchaser of power supplied to the national grid by power producers, does not have sufficient funds to fulfil the power purchase agreements it has entered into, hence the sector is plagued with a vicious circle of underpayment, delayed payment, underrecovery, underinvestment and inefficiency.

Q: Could you tell us a little about a deal which you have advised on recently?

We are very proud to have advised Carlyle-backed Diamond Bank on its recent merger with Access Bank. The transaction received final regulatory approval in March 2019 and the two banks combined operations at the beginning of April 2019. The merger has produced the largest retail bank in Africa

by customer base and the largest bank in Nigeria by asset size. This has been an important transaction for the firm and me personally because of the close role we've played in advising our client on their strategic options and identifying potential partners. It has attracted a lot of press and has involved significant tension and back and forth between the shareholders of both companies - so it has been a particularly exciting transaction.

Q: What are your ambitions for the firm over the next few years?

Templars is now 23 years old and we are proud to be among the best commercial law firms in Nigeria. Over the next few years, we want to maintain or improve our overall position as a top five firm, and remain in the top three in the areas of energy, tax and finance law. We are one of the largest firms in terms of headcount and are seeking to grow our business, particularly in areas where our practices have not yet reached their full potential. Finally, we're extremely proud to be one of the most sought after law firms by recent law graduates in Nigeria and will continue to place great emphasis on helping our people grow professionally.

Q: How is the AVCA membership valuable to you?

AVCA possesses high quality data and insight into who's closing deals and who's raising funds. This is important knowledge that helps us to identify potential clients and provide the right services to the market. AVCA also exposes us fantastic networking opportunities: this is an industry where it's absolutely vital to be seen and AVCA's conference gathers the "who's who" of African PE. Additionally, speaking opportunities at AVCA events allow us to raise the profile of our firm and demonstrate thought leadership.

CONTACT AVCA

37 North Row
3rd Floor
London W1K 6DH

E avca@avca-africa.org
W www.avca-africa.org
C www.avcaconference.com
T +44 (0)20 3874 7008

 African Private Equity and
Venture Capital Association