



Adeniyi Adenubi
Executive Director
– Institutional
Business and
Investor Relations



Gbenga Omolokun
Chief Operating
Officer

VFD Group Plc is a proprietary investment company that creates value by working within Nigeria’s informal financial sector to create innovative products and solutions. Incorporated in 2009, the team works through its subsidiaries to provide Advisory, Asset Management, Currency, Real Estate, Debt Services and Private Funds Management Services expertise to bridge the gaps in the banking experiences of Nigerian SME’s and citizens.

AVCA speaks with Adeniyi Adenubi, Executive Director – Institutional Business and Investor Relations and Gbenga Omolokun, Chief Operating Officer at VFD Group Plc on the realities of value creation within Nigeria’s informal financial sector, their recent exit from Germaine Auto Center and their future hopes for the expansion of the Group.

Q: Could you tell us a little bit about the history of VFD Group and why the company was established?

VFD Group was incorporated in Nigeria in 2009 and we began our operations in 2011. We were founded by a group of five professionals with diverse backgrounds and qualifications. Our initial focus was on the financial services sector, where we applied innovative thinking to plug gaps in the market and expand access to formal financial services. We still retain our legacy investments in this sector but have transitioned to become a proprietary investment company operating in a wide range of areassectors.

These include Anchoria Asset Management, one of the fastest growing asset managers in Nigeria. We expect the business will be one of the country’s top five asset managers within the next four years. Our other subsidiaries are Everdon Bureau de Change, which provides foreign exchange and remittance facilitation services and VFD Microfinance Bank. We also own VFD Bridge, an alternative debt investment company which provides debt to fast-growing companies that are too large for our microfinance business to handle. Beyond this, we also own a newly set up hospitality business with 40 rooms in Lagos and a real estate development company and property portfolio.

Over a three-year period, we also owned acquired a 31% stake in NEM Insurance before exiting the investment in December 2018 to a Private Equity Fund. It’s been one of our most remarkable investments, generating a return of

NAME OF PROFESSIONAL SERVICES FIRM

VFD Group Plc

FIRM TYPE

Direct Investor

PROFESSIONALS FOCUSED ON AFRICA

51

106% for us. We became a public company in January 2019 and now have more than 60 100 shareholders.

Q:What do you see as the key challenges and opportunities for value creation within Nigeria’s informal financial sector?

The challenges are manifold and mostly revolve around lack of access to capital for SMEs or individuals. For a long time, banks weren’t interested in doing small ticket transactions, preferring instead to focus on larger corporates. Additionally, many players operating in this segment charged prohibitive rates and government data on market size – an important tool to inform business decisions – was limited. Fortunately, we’ve seen gradual improvements in these areas, though companies’ lack of sophistication in terms of bookkeeping or accounting skills remain significant barriers to accessing formal financial services. Encouragingly, we’ve been able to use technology to bridge this gap and better assist

entrepreneurs with their back-office functions.

The sheer size of the unbanked and underbanked population is a clear opportunity to leverage technology and create financial inclusion to bring formal financial services to those who don't yet have access. Our technical expertise knowhow and knowledge of the market has enabled us to build an ecosystem that expands people's and organisations' access to credit and other financial services.

Q: What additional sectors within the financial services industry are you seeking to gain a foothold in?

We identified several promising sectors when we established VFD Group some ten years ago: banking, asset management and insurance. We acquired a 31% stake in NEM Insurance three years ago but eventually had to divest our stake as we wanted to become permanent partners in the business. However, our strategy hasn't changed, and we see the insurance sector as having significant potential, particularly as the broader economy becomes more sophisticated. We are currently in discussion with three insurance companies to acquire sizeable stakes and ultimately look to before merging them to create a "super-insurance" business that will be one of Nigeria's top five insurance companies. This comes at an opportune moment as Nigerian insurers need to increase their paid-up share capital by June 2020 following a decision last year by the National Insurance Commission (NAICOM), the Industry's Regulator.

Aside from insurance, we are also looking to acquire a full commercial banking licence. Our ambition is to build a national and digital – rather than brick-and-mortar – bank based on our in-house technology and experience gained from our microfinance/ consumer finance business. This bank will be a key driver of financial inclusion. Additionally, we are also looking to add a stockbroking offering and trustee business which will handle our wealthier clients with estate planning and other family office services. Beyond financial services, we also see significant potential in healthcare and education.

Q: In July 2019 you exited your 30% stake in Germaine Auto Center. Could you give us some context around this transaction, the management changes you implemented and the exit itself?

In 2016 we acquired a 30% stake in Germaine Auto Centre (GAC) a licensed Toyota dealership involved in, a car sales and repair business, in a deal that ceded management control to us. GAC

– along with many other importers dealers in Nigeria at that time – was facing some liquidity challenges given the state of the economy. Moreover, while GAC was a highly successfully business, it was built around its strong sales team rather than accounting and back-office functions. We were approached by the family who owned the company to help them restructure GAC. We managed the company for 2.5 years before exiting to them. We saw this opportunity as having clear alignment with our goals given cars formed the bulk of collateral put up by our clients. As such, it was a natural progression for us to venture into this sector as there were clear synergies between GAC and our financial services portfolio.

Gbenga Omolokun, our Chief Operating Officer, was appointed to manage the business. He successfully implemented significant management change and managed to reduce the company's debt, helping steer it back to profitability. In July 2019 we exited the business, having successfully turned it around. We see significant opportunities for value creation in family-owned companies where we can add our expertise to streamline operations and sustainably drive profitability whilst also growing the businesses.

Q: What is the outlook for the Nigerian economy? What sectors will attract the most attention from private equity investors?

Our population is currently growing at about 3% but economic growth is at less than about 2%. It's clear that we need double digit economic growth to accommodate our rapidly growing population. Unfortunately, the short-term outlook is not particularly exciting and there is a pressing need to rethink some of our policies. The power issue, which continues to hinder our economy, urgently needs to be solved, as does the infrastructure deficit. Finally, we need to diversify the economy and reduce our reliance on oil. The Nigerian economy presents many challenges, but these can be turned into opportunities with the right allocation of capital.

We see consumer businesses as having the greatest potential, though there are also opportunities in the energy and mining sectors. Despite disposable incomes declining over the last few years, the health, consumer financial services, telecommunications, FMCG and technology segments represent attractive opportunities for private equity investors.

Q: Where do you see VFD Group in five years' time? What African markets are you

seeking to expand to?

We're planning to expand across the continent over the next few years. In East Africa, we are looking at Kenya as one of the more established markets where we can expand our presence. We are also in the process of setting up a company in Ghana to explore what kinds of opportunities we can capitalise on – whether in the currency, remittances or commodity trading spaces. Lastly, we are looking at establishing a liaison office in the UK or US to expand our access to Western markets, both for ourselves and for our clients. We're very proud to have successfully exited two companies in the current economic climate and we hope to build on these achievements.

Q: How has the AVCA membership been of value to you?

The AVCA membership has been of tremendous value, particularly in terms of the networking opportunities where we have met leading local and international LPs and GPs. We've also been able to use AVCA's market insights for our positioning and strategy as we grow the business. Finally, we have sizeable capital at our disposal and we're always on the lookout for co-investment opportunities where we can co-invest alongside other GPs or LPs. In this respect, our extensive local knowledge of the Nigerian market makes us an attractive partner. Moreover, we can provide a straightforward exit route for our co-investors if the portfolio business aligns with our long-term business objectives, which extend beyond the holding periods private equity firms typically look at who have a 5-7 year investment horizon, whilst we look to hold for much longer.

Want to learn more about VFD Group Plc? [Click here](#) to explore AVCA's 2019 Member Directory.

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