Fintech M&A in Nigeria: Key Considerations and Projections

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Introduction

Nigeria's financial technology (fintech) industry has experienced unprecedented growth over the last decade, and this has transformed the country's financial landscape. The fintech industry offers innovative solutions by facilitating financial payments, access to credits and consumer financing solutions, flexible savings, and investment products.[1] A sizeable youth population, increased smartphone penetration, and regulatory developments have engineered a thriving fintech industry in Africa, particularly in Nigeria. Between 2014 and 2019, the fintech industry in Nigeria raised more than $600 million in funding,[2] and in 2019, the total value of investments in fintech companies worldwide reached $216.8 billion. However, from 2020 to date, the industry has experienced a downward investment trend.[3] In 2023, the global fintech market experienced some challenges such as global economic instability, high levels of inflation and interest rates, foreign exchange fluctuations, depressed valuations, and other macroeconomic issues. There was also the general scepticism and cutbacks from international private equity investors and venture capital firms.

In spite of these challenges and uncertainties, there have been notable collaborations and partnerships in the fintech sector. Some of the collaborations have taken the form of corporate reorganisations, such as spinoffs[4], carve-outs[5], buy-outs,[6] mergers and acquisitions (M&As), thereby creating strategic avenues for companies to gain a competitive edge, expand market presence, and explore new technologies.

These reorganisations appear to be driven not only by cost efficiency and increased profitability but the need to stay afloat in spite of the recent funding drought, significant increase in cash burn rates, and failed financial projections for growth. Reorganisations have also been driven by regulations[7], tax efficiency, and investor-compelled corporate governance imperatives that must be met.

Despite the seemingly sluggish state of the funding of the fintech industry, the long-term outlook for the transformation of financial services remains positive, and many fintech companies are seeking to reinvent themselves through strategic partnerships, collaborations, and innovative corporate re-organisations, and it is expected that this will continue to shape the industry over the next decade.

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1 Mckinsey & Company Report, Harnessing Nigeria's Fintech Potential, September 23 2020 Report, available at https://www.mckinsey.com/featured-insights/middle-east-and-africa/harnessing-nigerias-fintech-potential#/ accessed 1 November 2023.

2 Mckinsey & Company Report, Harnessing Nigeria's Fintech Potential, September 23 2020 Report, available at https://www.mckinsey.com/featured-insights/middle-east-and-africa/harnessing-nigerias-fintech-potential#/ accessed 1 November, 2023.

3 Statista, Total value of investments into Fintech companies worldwide from 2010 to H1 2023 (in billion US dollars), available at https://www.statista.com/statistics/719385/investments-into-fintech-companies-globally/, accessed 12 November, 2023.

4 Creating a new company (subsidiary) to operate a business that had been carried on by the parent company.

5 A parent company sells some of its shares in its subsidiary to new shareholders and establishes the subsidiary as a separate company not relating to the original company.

6 In a buy-out, an acquirer buys the controlling equity stake of a company from the current shareholders and takes up their equity.

7 A number of fintech companies in Nigeria had to reorganise their corporate structures in compliance with the December 2020 Circular on licence categorisations for the Nigerian Payment System and the Guidelines and Regulation for Payment Service Holding Companies in Nigeria.

Recent Fintech Acquisitions in Nigeria.

Statistics show that the chances of a business being acquired in the fintech industry are higher than in other sectors and there have been a significant number of startup acquisitions in Africa

in the past 3 to 5 years. Nigeria has been the location for flagship startup acquisitions,[8] with the Paystack/Stripe acquisition[9] leading the wave in 2020. In 2023, there were a number of acquisitions that occurred and this Article highlights three:

a) Blockfinex's acquisition of Fluidcoins[10] - Fluidcoins, a Nigerian crypto payment gateway startup, was acquired by Blockfinex, a crypto exchange company registered in the United Arab Emirates. It was structured as an acquihire,[11] as the founding team at Fluidcoin was absorbed into Blockfinex to continue to develop and improve the product.

b) Fairmoney's acquisition of Payforce[12] - Fairmoney, a fintech company in Nigeria that provides loans to retail customers through its digital lending product acquired Payforce which provides merchant payment services. The purpose of the acquisition was to deepen financial inclusion in Nigeria and increase the avenues for accessing loans and other credit products.

c) Autochek's acquisition of Autotager[13] - Autocheck, a vehicle financing technology company in Nigeria acquired a majority stake in Autotager, an Egyptian automotive technology company. The purpose of the acquisition was to take advantage of the large demand for cars and auto financing solutions in Egypt.

Key considerations for M&As

Fintech companies seeking to acquire other business undertakings, or investors seeking to invest in a fintech company will need to consider the following, either as part of a due diligence investigation or when generally looking out for indicators of financial viability in a fintech business.

a) Regulatory approvals

Regulatory considerations are critical to any M&A transaction, whether as it relates to anti-trust and competition law, company law, securities law, data privacy laws, labour and employment laws, or laws that pertain to foreign investments.

8 Tom Jackson, Disrupt Africa: Finnovating for Africa: Reimagining the Africa Financial Services Landscape, 7 September 2023, available on https://disrupt-africa.com/2023/09/07/african-fintech-space-saw-26-acquisitions-in-last-two-years/ accessed 4 November 2023.

9 https://paystack.com/stripe

10 https://techcabal.com/2023/02/16/fluidcoin-sold-to-blockfinex/

11 An acquihire is an acquisition that is primarily for the skills and expertise of the employees of the acquired company and not necessarily for its product or service.

12 https://fintechpad.com/nigerian-fintech-fairmoney-acquires-payforce-2/

13 https://techcabal.com/2023/04/18/autochek-acquires-majority-stake-in-egypts-autotager/

In Nigeria, the Central Bank of Nigeria ("CBN") has regulatory oversight over entities that provide financial services, and any M&A transaction that will trigger any change of control (direct or indirect) or change of a significant shareholding in a fintech company licensed by the CBN will require approval from the CBN.[14] Prior to the enactment of the Banks and Other Financial Institutions Act 2020 ("BOFIA"), fintech companies had to have recourse to the Federal Competition and Consumer Protection Commission (FCCPC) for an assessment of how an M&A can potentially affect competition in Nigeria.

the BOFIA established that the CBN has exclusive regulatory oversight over merger transactions involving banks, specialised banks, and other financial institutions ("CBN-Licensed Entities").[15] Hence, the approval of the FCCPC is no longer required for M&As involving fintech companies. If the fintech company to be acquired is a public company or deals in virtual assets, it will require the approval of the Securities and Exchange Commission.

Sectoral approvals may also be required for fintech M&A transactions. Where a fintech business or some segments of it is licensed by a sectoral regulator, e.g. a fintech company that facilitates payments through the use of USSD (Unstructured Supplementary Service Data) codes, such business will come under the regulatory purview of the Nigerian Telecommunications Commission ("NCC"), or it will have to collaborate with another business that has a licence from the NCC.

An acquisition may also necessitate new licenses or modifications to existing ones, especially if it will result in the integration of financial services regulated under different regulatory bodies.

b) Assets, Liabilities and Value

c) Due diligence investigations usually cover legal, financial, tax, and governance considerations. At the core of any type of due diligence is the need for the investor/purchaser to understand the scope of the potential assets and liabilities that the acquiring company will be taking on post-acquisition and the value that the target company will be bringing to the collaboration.

(i) **Assets** - they add economic value to a business, and this may be in the form of intangible assets such as goodwill, intellectual property, technical skills of key employees, tax credits, or tangible assets such as real estate and equipment.

(ii) **Liabilities** - they can potentially generate losses or have damaging financial or reputational effects on the company post-acquisition. This may be in the form of compliance deficiencies, debts, litigation, and claims from third parties.

(iii) **Value** - it is important for the acquirer to understand the true value of the target company. This will include considerations such as the growth potential, the size, and positioning of the market, current customer base, etc. of the target company.

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14 Sections 7 and 131 BOFIA. Significant shareholding means 5% or more of the paid-up share capital of a bank or other financial institution.

15 Sections 29 (1) and Section 65 BOFIA.

A comprehensive due diligence investigation underpins any successful M&A transaction, as it ensures that the acquiring entities have a clear and full understanding of the present value and future potential of the target companies. M&A is not merely an integration of business structures, but a fusion of values, goals, and visions and it is for that reason that the companies in an acquisition journey must understand and mitigate all potential risks.

Projections

As the fintech industry in Nigeria continues to evolve, the following are the projected trends that will shape M&As in 2024 and beyond:

a) Focus on financial inclusion and payment innovation

Fintech companies that focus on solutions to address challenges of financial inclusion are likely to attract attention from investors and potential acquirers. M&A deals in this space could pave the way for innovative products and services that cater to the unbanked and underbanked.

The payments space is expected to continue to evolve and witness disruption. Additionally, as cashless transactions gain popularity in Nigeria, there will be an increased demand for the acquisition of fintech companies that offer seamless payment solutions.

b) Blockchain and decentralised finance (DeFi) opportunities

Blockchain technology and decentralised finance (DeFi) have the potential to revolutionise the financial services industry. Fintech startups that utilise blockchain for applications like border remittances, identity verification, and smart contracts may attract interest from both local and international acquirers.

As DeFi gains momentum worldwide, Nigerian fintech companies are likely to explore opportunities within this domain. Additionally, the recently issued CBN's Guidelines on the operation of bank accounts for Virtual Assets Service Providers (VASPs)[16] indicates CBN's adoption of a clearer regulatory regime for banking transactions involving digital/virtual assets and the activities of VASPs. This could potentially give rise to M&As aimed at harnessing the benefits of blockchain technology and DeFi.

c) Collaborations between fintechs and traditional financial institutions

Collaboration between fintech startups and traditional financial institutions is likely to become more prevalent. Established banks can adapt to change and embrace fintech innovation while fintechs can leverage the resources and customer base of established banks.

This collaboration can create an ecosystem where both fintech startups and traditional financial institutions can thrive and grow together benefiting from each other's strengths and promote innovation.

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16 On 22 December 2023, the Central Bank of Nigeria issued the Guidelines on the operation of bank accounts for Virtual Assets Service Providers ("**VASPs**"). In issuing the Guidelines, the CBN lifted its restrictions on banks and other financial institutions from facilitating payments for cryptocurrency transactions. Virtual/digital asset transactions can now be channelled through financial institutions in Nigeria.

d) Clarity of regulatory framework

Regulatory developments and government support will continue to play a significant role in shaping the future of M&A in the fintech sector in Nigeria. Regulatory clarity and stability are crucial for attracting foreign investors, as regulatory clarity instils confidence in potential acquirers. It will be useful for the CBN to outline a standalone regulatory framework for the assessment of competition and consumer protection arising from the M&A activities of CBN-Licensed Entities.

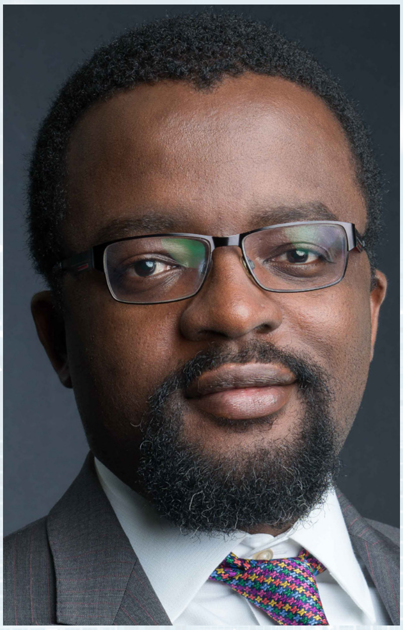
e) Cross-border M&A opportunities

The Nigerian fintech industry has been identified as an industry with immense potential. Cross-border M&A deals may increase as foreign fintech companies recognise the potential in collaborating with or acquiring Nigerian fintech startups to gain access to the country's evolving and growing market.

Conclusion

As the Nigerian fintech ecosystem grows, market consolidation through M&A is likely to continue. Larger and more established fintech players may seek to acquire promising startups to expand their service offerings, customer base, and geographical reach. Additionally, startups may look for strategic partnerships or M&A opportunities to gain access to the resources and expertise of more established players, driving further consolidation within the sector.

To seize these opportunities and navigate potential challenges, fintech companies must remain agile, innovative, responsive to market trends and keep in mind that investors are not only looking out for big valuations, but resilient founders, sustainability, and companies with good corporate governance. By staying informed and adopting a strategic approach, domestic and international players can position themselves for success in the exciting future of fintech M&A in Nigeria.



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