



SMEs and Private Equity in Nigeria: Challenges and Opportunities of the COVID-19 Pandemic

Introduction

This year, the drop in oil prices and the COVID-19 pandemic have put the Nigerian economy under unprecedented strain. Economic activity and investment have been affected, and the Private Equity space is no exception. Deal activity has slowed down, the projections and valuations of target companies have been impacted and some investors have even begun to lose faith in previously discussed

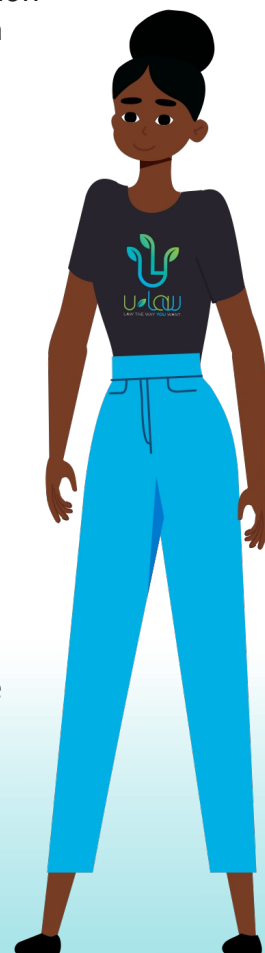
transactions. Small and medium-sized companies that were depending on these investments should be aware of the various challenges and opportunities that may arise due to the COVID-19 pandemic.



- Expectations:** ■ The economic downturn will mean that PE Funds have less money to invest. They are therefore likely to focus on keeping their current portfolio companies afloat, rather than looking for new companies to invest in. SMEs may struggle to attract capital if their business is not 'COVID-resistant'. Investors will begin looking for opportunities in industries that have persevered through the current crisis, such as healthcare, telecommunications, agriculture, technology etc.
- Companies looking to raise capital should expect significant delays and increased transaction timelines and costs. Without in-person meetings, capital sourcing and due diligence are likely to slow down. Investors' investment committee meetings will also be impacted. Companies may struggle to convene meetings to approve transactions, and key regulators such as the Securities and Exchange Commission (SEC) and Federal Competition and Consumer Protection Commission (FCCPC) may have difficulty reviewing and approving transactions.

- Assess your project:** ■ If you have already secured an investor and your transaction is in its early stages of negotiation or documentation, you may experience delays in negotiating deal terms and completing transactions. Consider the following:

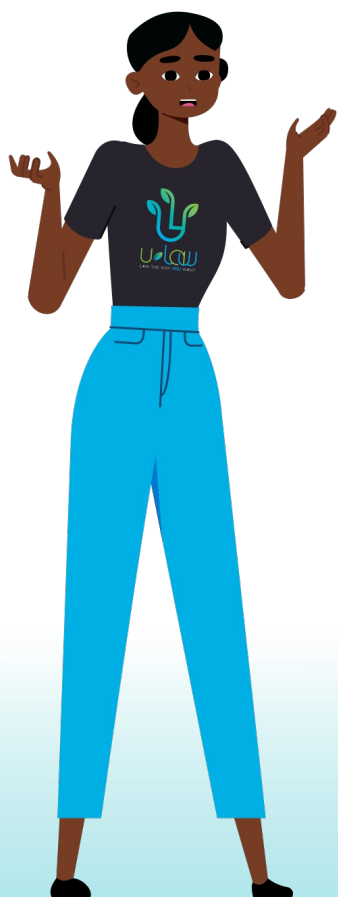
- Do the projected timelines for the transaction still work, given the government-imposed lockdown and social distancing restrictions?
- Is the project still bankable? Is there still a business case that is attractive to investors?
- Are the valuations of your company still practicable post-COVID-19?
- Are you in a sector directly affected by the pandemic, such as entertainment, travel and hospitality, tourism, retail, or oil and gas?





Key Considerations:

- Regardless of the stage of your transaction, please take the following into consideration:
 - Communication is key! As the target company, do not assume that investors/ PE firms know the effect of the COVID-19 pandemic on your company. Communication and information-sharing between portfolio companies and PE firms is essential. Be transparent, so as to inspire trust in the business relationship.
 - If you are a portfolio company, you must immediately inform the PE firm on the impact of the pandemic on your business and the kind of support that will be required, especially where additional capital, waivers or consents will become necessary to keep the business afloat. PE firms will be looking to support their portfolio companies at this time and may even extend the term of their investment to give them more time to realise value.
 - To comply with the restrictions on gatherings and social distancing rules, private companies can make key decisions at board and shareholder level via written resolution. Boards will be able to meet virtually if the company's articles permit them to. Be mindful that certain decisions may require filings at the CAC within specified timelines before they may take effect.
 - Investors need certainty and are looking for positive outcomes from due diligence exercises. This will drive them to demand detailed and comprehensive representations and warranties from target companies. At closing, target companies may also have to make disclosures regarding changes that take place after the transaction documents have been signed.
 - You may need to consider appropriate mechanisms to hedge possible risks associated with foreign currency fluctuations, dwindling oil prices and the economic instability caused by the COVID-19 pandemic.





- When planning transaction/project timelines, parties must provide for extensions, as well as any adjustments to transaction completion dates and long stop dates.
- Be open-minded to 'investor-friendly' terms and flexible agreements. Target companies will need to co-operate with investors for the purpose of closing the transaction.
- Rethink your Due Diligence methodology. Going forward, companies need to ensure their records are organised and available in soft copies to enable the exclusive use of Virtual Data Rooms.

Conclusion: COVID-19 will inevitably change the way business is done forever. While the prospects for many companies may look bleak in the short to medium term, the global economy will eventually bounce back and deal activity will pick up. For now, assess the extent of damage that your company may face, and do your best to mitigate the negative effects of the pandemic while maximising the opportunities that will most certainly present themselves once the pandemic is contained.

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