DEVELOPING BUSINESS IN NIGERIA

MYTHS, FACTS, METHODS

THE OPPORTUNITIES
TAS Advisory Services Ltd

With about 20 years worth of experience working across 4 continents, we are specialized in delivering focused consultancy services and manpower development services to clients across telecom, finance, education and other industries.

- Strategy/Business Plan development and Implementation
- New Product Development
- Market Research and Analysis
- Consumer Research and Behavioral Analysis
- Business Intelligence solutions
- Specialist in Recruiting and Outsourcing
- Effective and pragmatic Customer Care Management
- Performance Management system development
- Wilson Executive Training
TAS Advisory Services Ltd

Clients in over 10 countries, 4 new African countries opened just this month (Gabon, Rwanda, Congo Republic and Zambia).

- Started in December 2007
- Founders were experienced ‘Repats’ from the US & The Netherlands
- 100+ professionals
- Outsourcing and interim management, growth focus
- Further expansion in the Middle East

We are no SME but an SMN: Small Multi-National
Naijalink Ltd.

Naijalink is a boutique, bespoke market entry consultancy company.

We create a presence for international companies in Nigeria. Our services include:

• Market research
• Market-entry strategic advise
• Partner & distributor search
• Trade missions & country visits
• Due-diligence & risk analysis
• Sales & company representation
• Office solutions and staffing
• Investment facilitation

We work in every business sector and throughout the country.
NIGERIA: SOME FACTS

GDP $451bn 2012
With forecast growth of over 7% in 2013

Population around 162.5 million
Growing at 3.2% per year

Resource abundant in oil, solid minerals, land and human resources

Strong entrepreneurial spirit

Consumption driven by an increasingly-wealthy middle class

One of the highest returns on investment in the world
The Giant of Africa is the 7th most populous country in the world. It has the largest domestic market in Africa.

- 1 in every 43 people is a Nigerian
- 65% is below 25 yrs old
- 50% living in cities
- More than 10 cities with over 1m inhabitants

Income & Consumption:
- lowest 10%: 2%
- highest 10%: 40% (2010 est.)
- Most companies target the “rising strivers” (21% or 34m people).
- High spenders are the “cosmopolitans” (7%, 11m) and the affluent (2%, 2.5m people)
Targeting Nigeria:

There is power in diversity
Solid minerals, and agric

Agriculture & old industries

Cocoa, industry, multinationals, education

Largest informal market in Africa

Cattle & agric

oil
Megacities twice the size of Ireland

“By our estimates, the Lagos State economy will become Africa’s 13th biggest economy in 2014, around $45 billion. This is the same size as Ghana’s Economy.”

(Renaissance Capital, May 2013)
An economy characterized by:

- Strong and continued growth
- Heavy reliance on oil & gas
- Dependence on imports
- Infrastructural challenges
- Substantial FDI inflows

- Imports: China 17.3%, US 9.1%, India 5%, Netherlands 4.9%, South Korea 4.7% (2011)
- Exports: US 29.1%, India 11.6%, Brazil 7.8%, Spain 7.1%, France 5%, Netherlands 4.3% (2011)
Four Important Myths About Business In Nigeria
Ease
Innovation
Corruption
Avoid ‘fuelling’ the fire
Security
Dialogue!
Does size really offer opportunities..?
...depends on the “perspective”
Some of the sectors we’ll discuss

- Telecom & IT
- Agriculture
- Retail & FMCG
- Banking & finance
- Education
- Construction & real estate

KPIs, trends, case studies, opportunities

Public sector:
Lots of projects & contracts, seemingly attractive, but often murky waters to navigate.
Agriculture

Picking the fruits of the renewed focus on agriculture
Agriculture is Nigeria’s future – but still looks like the past

Cash crops like cocoa, palm oil, top quality leather production & 34 million hectare of arable land. Worth $180bn

Renewed government focus, increasing investment, international engagement, commercialization growing at 5% per annum

Subsistence farming, old methods, lack of equipment, unskilled labour, 30% of land under cultivation. Employs 114m people

Limited processing of agric produce, no proper storage facilities and poor roads 50% rots away/50% imported

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<tr>
<th>Name &amp; Entry Date</th>
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<td>Description</td>
<td>Profit making</td>
<td>Local expertise</td>
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The agricultural sector sees a mismatch between supply and demand, as well as significant infrastructural challenges.

- **Inputs**
  - Improved seeds & feeds
  - Training & consultancy
  - Machinery
  - Storage facilities

- **Farming**
  - Commercial farms
  - Cattle fattening
  - Fish production

- **Processing**
  - Machinery
  - Packaging
  - Know how
  - New local brands

- **Trading**
  - Sourcing of products: Arabic gum, cocoa, sesame, ginger, sheanut
  - Domestic supply & distribution
  - Gap informal supply and formal demand

- **Finance**
  - Trade finance
  - Long-term finance
  - Leasing (equipment)
  - Commodity exchange

- **Only 30,000 tractors in Nigeria**
- **Farm output to grow with 180% until 2030**
- **20% of tomato paste demand of 300,000t/yr produced locally**
- **Nigeria doesn’t have this capacity**

A sector the size of Ireland, waiting for entrepreneurs.
“Nigeria has the potential to be one of the biggest construction markets on the planet”

Oxford Economics
Nigeria is often associated with poor roads and other infrastructure needs. The supply-demand gap is enormous. Many works are ongoing.

It is one of the fastest growing sectors in the economy, especially due to the strong economic growth & new government spending.

Roads, major infrastructure and houses are built by foreign companies. Construction staff is often from outside the country also.

Only 10% of the population own homes and millions of citizens live in accommodation with little access to basic services.

Worth $10bn in 2012

17% projected growth

95% foreign companies

17 million houses needed

Name & Entry Date
Broll SA (& Persianas)

Description
Profit making

Success Story
Front runner


Builds & manages the leading shopping malls in Nigeria and introduced different store concepts

Thinking big & developing the formal retail space. Recently received $124m IFC facility
“From now to 2020, only Nigeria and India will enjoy higher growth rates than China in their construction output.” June 2010 report by Global Construction Perspectives and Oxford Economics.

- Affordable housing (<$15K)
- Flats & residential estates
- Luxury mansions
- Hotels
- Shopping malls
- Serviced offices with parking
- Cement
- Specialized industry solutions
- Interior (excl furniture)
- Certified vocational training
- Experienced & skilled mid-senior level staff
- Consultancy & architects
- Roads, rail & bridges
- Mining
- Oil & gas and power sectors
- Airports, ports

- Import of industrial supplies: $1.33bn (2012)
- Dangote cement: $325m profit returns Q1’13
- $6bn investment in new Onne Free Trade Zone
- Sales price of Eko Atlantic, currently the biggest ongoing civil engineering construction site in the world: $2,000/m²

Investment inflow into Nigeria’s construction industry will attain $9.4 bn by 2021

(Business Monitor International)
Retail & FMCG

Exponential growth for those targeting the people
A decade of more than 10% growth every year, driven by FDI, (urban) population growth, and the increase in disposable income

Nigerians are born traders and enthusiastic consumers. Most of the sector belongs to the informal economy.

SAB Miller builds a $100m new brewery, Nestlé a $35m distribution center, all large FMCG manufacturers setting up in Agbara Ind. Estate

"Shopping mall revolution" is happening. First mall in 2004, now several +20,000m2 malls of over $40m each. Online shops start mushrooming as well.

After initial hesitation, international food brands like KFC and Domino’s Pizza have entered Nigeria and are expanding exponentially

$81bn sector

FDI $1.3 bn in the last 2yrs

3 mega malls this year

200 brand eateries in Lagos alone

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<td>Spar International</td>
<td>• Profit making • Sales average $14.5m per shop of 2700m2.</td>
<td>• Exponential growth • Opened 6 stores in 3 years, 200 planned by 2020 with the total market size estimated at 700 stores.</td>
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37% of total monthly household spending goes to food, personal care, and household products. International concepts & brands are winning.

- “Nigeria highest spender packaged goods in Africa”
- Jumia online store receiving $20m FDI in 2013
- “Nigeria is the largest market in Africa and the Middle East for Moet Hennessy”
- Lagos is 1 out of 4 African cities with consumer spending of $25bn or more by 2020 (McKinsey)

Nigerians tend to buy even those things they can’t afford
Telecommunications
The telecom industry grew from 500,000 lines to 110 million within 12 years...

- Strong regulatory environment
  - >20 operators with various technologies
  - GSM/3G companies have >90% market share

10m forecast

>>110m actual
The telecom industry grew from 500,000 lines to 110 million within 12 years...

**Strong regulatory environment**
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**10m forecast >>110m actual**

**Mobile Market Share**
- Nigeria, June 2012
- Etisalat
- Globacom
- Airtel
- MTN
- Other

**$25bn 2012**

**Trends of Private Investment**
- (1999 - 2009)
The telecom industry grew from 500,000 lines to 110 million within 12 years...

Rural Penetration: 40%, target is 60% in 2015
80m rural dwellers, 25% without access to a phone
72% travel <1km, 23% 1-5km, 4% 6-10km, 1% >10km

$1.2bn opportunity based on $2 ARPU
The telecom industry grew from 500,000 lines to 110 million within 12 years...

Fixed line penetration 0.51% (2011) >>1.5% (2012). Expected to increase to 10% by 2015. Demand is 50m.
World bank: 10% broadband growth = 1.3% GDP growth

Money Transfer in Kenya hit $8bn between 2011 & 2012; (25% GDP). Nigeria’s population = 5x Kenya
international Remittances >$21bn; $10bn officially

Investments in the network: rollout and coverage has cost MTN and Airtel $1bn per annum for the last 2 years. LTE
coming, voice demand still not met. $25bn spent till date

1.3% GDP ($6bn)

Potentially $100bn

$3bn minimum
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- Took a risk and bid for a GSM licence in 2001. Other companies were not convinced.
- Turnover $4.8bn, EBITDA 58% (was >60%). MTN invests approximately $1bn a year on its network (+/-10k sites)
- MTN Nigeria has >48m customers and has half of all new customers. NSN judged them MEA’s most efficient company
...75% of these investments were by foreign owned companies who have invested over $25 bn in the same period.

Total Telecom Opportunity: >$100 bn in 2 years
Banking
Continuous improvements in regulation and corporate governance since the late 90s have created a sustainable and high growth banking sector.

Following a benchmark with Malaysia and similar countries, banks were given a min. capital base of ~$210m. This reduced the number of banks from 100 to 25 well funded banks (December 2005).

In 2009 following an audit, it was discovered that up to 30% of all loans were NPLs. 5 banks were rescued, 3 which became nationalised and the last 2 acquired. A bad bank was set up as the vehicle to buy NPLs.

The kitchen sinking of gross loan books, improved coverage ratios and better Standard & Poor’s rating have improved confidence in the sector.

The improved confidence has renewed interest from global players looking for acquisition targets. It has also heralded the return of retail investors, pushing share prices significantly higher.

Finally, the consolidation through M&A has reduced the number of banks. Bigger banks enjoy economies of scale and larger branch networks. Duplicated branch locations are replaced by new (more rural) locations.

Name & Entry Date
Standard Bank South Africa

Description
Profit making
- In 17 African countries, its $45m of $90m share of revenues were 21% of all African revenues (excl. SA) within 5 years.

Success Story
Others
- Standard Bank saw a 68% growth in headline revenues in the rest of Africa, confirming that entry was a wise move.

- Acquired 51% of IBTC Bank in 2007 in Nigeria’s 1st tender offer with an FDI injection of $525m for its Africa expansion.

3% GDP Contribution

$25.1bn NPL's acquired

NPL ratio: 36%@0610 - 5%@1211

5%-200% Y-O-Y Share Price Increase

>20% Penetration

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair. 

Charles Dickens, A Tale of Two Cities

Share Price Mar 12-Mar 13

TAS Advisory Services
The opportunity for Irish investors amounts to over... 

Total Opportunity: >$2bn (Market Cap Zenith Bank)
STUDY ABROAD
In Ireland
The Nigerian education system has gone from the glory days of the 70s & 80s to an exodus of students costing more than the education budget.

Nigeria’s high education standards attracted Asian, European and mostly African students in the 70s and 80s. However, a mass outflow started in the 90s.

About 1% of the population applies for Higher Education places but only 1 in 3 get a place. Local & international investors, charities (51) and Federal (40) & state (39) governments have been building universities.

18,000 HE students went to the UK in 2012 while 71,100 went to Ghana. 6,500 were recognised in the USA. The UK expects 30,000 HE students in 2015.

The UK had over 400,000 foreign HE students and up to 150,000 other students in 2012. However, recent negative publicity and the surge in anti-immigration sentiment may slow growth.

UK: 18,000  
Ireland: 700

1.2m applicants not placed

UK earned $2.5bn  
Ghana earned $1bn

UK earned $13-21bn  
Irl. earned $180m
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A study into the contribution of foreign students to a local economy was done in Sheffield. Results showed a Gross Margin of 60% per student.

**Name & Entry Date**

- **UK Universities**
  - The UK struck gold with Nigerian students looking for uG and PG places. This followed the success with high schools.

**Description**

- **Profit making**
  - 1 in 15 non EU students in the UK is Nigerian. They form the 3rd largest group only after China & India spending $2.5bn.

**Success Story**

- **Others**
  - Nigerian students will grow from 18k to 30k in just 2 years. >100 UK schools aggressively target Nigerian youth.

**UK**

- 18,000
- Ireland: 700

**1.2m applicants not placed**

**UK earned $2.5bn**

**Ghana earned $1bn**

**UK earned $13-21bn**

**Irl. earned $180m**

**$40,000/student/annum**

### Indian education

**UK Border Controls**

Honesty, it's not worth the wait.
The opportunity for Irish universities, investors and government amounts to over... 

- **International Students**
  - Universities
  - High Schools
  - PPP Collaboration
  - Vocational/Others
  - $760m (5% UK)

- **International Expansion**
  - Universities
  - High Schools
  - PPP Collaboration
  - Vocational/Others
  - $10m-15m (@1k)

- **Support Services**
  - Software/Online/Equipment
  - Real Estate
  - General Support, Visa, Conferences
  - Transportation
  - Major

Total Opportunity: >$1bn per annum
Market Entry

Finding a partner with the right capacity
The do’s and don’t of doing business in Nigeria

- Business in Nigeria is very open, there are very few restrictions for investors and Government is very pro-business.

- Nigerians are very Pro-West and the typical executive has at least a Masters degree from a good Western University.

- English is the official language and the general culture is similar.

- Religion 50% Islam (North), 40% Christianity (South).

- In spite of all that, please always use a local Partner. They will help you swim through interesting swamps and help you avoid FMMs (Frequently Made Mistakes).

- When in Nigeria, THINK BIG, VERY BIG.
Why a good partner pays off

- The importance of connections
- Dealing with local ethics
- Regulatory environment
- Risk sharing
- The need for personal follow up

- Work with reliable and knowledgeable partners.
- The greatest threat is not to find a fraudulent partner, but an ineffective one.
- Whatever you do, don’t underestimate Nigeria: its opportunities nor its challenges.