

ARTICLE SERIES

THE GROWTH BOARD OF THE NIGERIAN EXCHANGE: A POTENTIAL EXIT STRATEGY FOR NIGERIAN STARTUPS



INTRODUCTION

One of the recent developments that took place in the capital market and has been of particular interest to Small and Medium Enterprises (SME's) and startups is the introduction of the Growth Board of the Nigerian Exchange ("NGX").

The Growth Board was developed to enable companies with small market capitalisation [1], good corporate governance structure and potential for growth to list on the NGX and grant them access to capital and long-term liquidity from the Nigerian public and foreign portfolio investors [2]. The Growth Board Listing Guide goes further to state that "The board targets fast growth companies such as SMEs operating in various sectors including Technology companies" (emphasis ours).

With the NGX creating an alternative route for startups to raise capital and investors to exit, the question on a lot of minds is can the NGX actually create value for startups through the Growth Board?

In this article we will attempt to answer this question by examining the requirements for listing on the Growth Board, the advantages of listing, the critique of the Growth Board, and conclude with our verdict on whether the Growth Board may be a potential game changer for startups and investors in Nigeria.

Listing on the NGX through the Growth Board

Previously, the NGX had three boards that companies could list on namely:

- the Premium Board for companies with a market capitalisation of N200,000,000,000 (two hundred billion Naira) and can meet the most stringent requirements of listing that the NGX has as stated in the Rulebook of the Exchange, 2015 [3];
- the Main Board for companies that have become well established in the Nigerian capital market space and can leverage their reputation to access capital and meet the requirements as stated in the Rulebook of the Exchange ,2015 [4]; and
- the Alternative Securities Market (Asem) Board which was established as a specialised board for emerging businesses: small and mid-sized companies with high growth potential seeking to access the capital market. There were no market capitalisation requirements for participants, provided they were compliant with the Rulebook of the Exchange, 2015.

[1] The value of the outstanding shares of a company that is usually traded on an exchange.

[2] "The Growth Board Listing Guide", by the Nigerian Exchange Group. <https://ngxgroup.com/exchange/listed-companies/>

[3]Part A2 - The Premium Board Chapter 12 - Listing on the Premium Board of the Rulebook of the Exchange 2015.

[4]Part A-Listing Process-Part A1-Main Board of the Rulebook of the Exchange 2015

However, the NGX discontinued the Asem Board [5], due to low trading activity and a lack of interest from SMEs [6].

Today, the NGX believes that the Growth Board will achieve the objectives of the defunct Asem Board because the Growth Board was designed to:

- encourage companies with high growth potential to seize the opportunity of raising long term capital and promoting liquidity;
- cater for various market segments and to ensure all spectrum of businesses/companies in various growth phases can be listed;
- highlight the benefits available in the capital market for start-ups, Small and Medium Enterprises (“SMEs”) and technology companies; and
- provide market operators with a platform and access to a potential pipeline of companies for listing on the NGX [7].

The NGX also stated that its listing requirements considers that most companies in their growth stage cannot meet the stringent requirements of being a public company [8].

Listing Requirements

To be listed on the NGX Growth Board, the interested entity may be listed on the Entry Segment of the Growth Board or the Standard Segment of the Growth Board. The Entry Segment will serve as the platform for startups and SMEs with a market valuation of N50,000,000 (fifty million Naira) to N500,000,000 (five hundred million Naira) while the Standard Segment will focus on medium sized businesses and companies that have exposure to venture capital investment with a valuation of N500,000,000 (five hundred million Naira) to N4,000,000,000 (four billion Naira). Upon determining the segment of the Growth Board the entity will be listed on, the entity must:

[5] “Stockbroker’s canvass easier access to ASeM Board for SMEs” by Helen Oji for the Guardian, accessed 1 November 2021. <https://guardian.ng/business-services/stockbrokers-canvass-easier-access-to-asem-board-for-smes/>

[6] “The Growth Board Listing Guide”, by the Nigerian Exchange Group. <https://ngxgroup.com/exchange/listed-companies/>

[7] “The NSE Growth Board Value Proposition” by the NSE for Proshare, accessed 1 November 2021. <https://www.proshareng.com/news/Capital-Market/The-NSE-Growth-Board-Value-Proposition/49156>

[8] “The Growth Board Listing Guide”, by the Nigerian Exchange Group. <https://ngxgroup.com/exchange/listed-companies/>

<i>S/N</i>	<i>Entry Segment</i>	<i>Standard Segment</i>
1.	be incorporated as a public company limited by shares	
2.	be listed on the Main Board or was listed on the Asem Board or is seeking a new listing on the Entry Segment	be listed on the Main Board or was listed on the Asem Board or is seeking a new listing on the Standard Segment
3.	be in operation for at least 2 years	
4.	submit its audited financial statements prepared in line with the International Fiscal Reporting Standards (IFRS)	
5.	have grown its revenue by a minimum rate of 20% cumulatively in its last 2 years of operations OR	
	If it is a new business, it must provide evidence of investment in the company by:	
	<ul style="list-style-type: none"> • A core investor or a strong technical partner that has a minimum of 2 years' operating track record; or • A majority shareholder who is either a High Net Worth Individual or is a director of a listed company. 	<ul style="list-style-type: none"> • A core investor or a strong technical partner that has a minimum of 4 years' operating track record; or • A majority shareholder who is either a High Net Worth Individual.
6.	have a minimum free float (the minimum amount of shares that must be issued to the public) of 10% of its issued share capital.	have a minimum free float (the minimum amount of shares that must be issued to the public) of 15% of its issued share capital.

<i>S/N</i>	<i>Entry Segment</i>	<i>Standard Segment</i>
7.	have a minimum of 25 shareholders or such other number the NGX will approve from time to time.	have a minimum of 51 shareholders or such other number the NGX will approve from time to time.
8.	appoint a designated adviser or such relevant professional the NGX prescribes to advise the entity.	
9.	submit a written application to NGX and execute the General Undertaking for listing on the Segment.	
10.	Undertake to ensure that its promoters or directors will retain a minimum of 50% of their shares in the company for a minimum period of 12 months from the date of the listing, and that they do not directly or indirectly sell or offer to sell their shares during the period aforementioned.	

After the requirements are in order, the entity must follow the listing procedure as specified in the Growth Board Listing Guide [9]. The NGX also states that notwithstanding that the entity has met all the listing requirements, the NGX can deny the application if it believes the entities securities are not suitable for listing [10]

[9] See the procedure highlighted in our previous article -“Listing on the Growth Board of the Nigerian Stock Exchange” by Damilola Ogedengbe, Tejumade Adetona, and Oluwapelumi C. Omoniyi Aelex April 2020. <https://www.aelex.com/listing-on-the-growth-board-of-the-nigerian-stock-exchange/>

[10] “The Growth Board Listing Guide”, by the Nigerian Exchange Group. <https://ngxgroup.com/exchange/listed-companies/>

[11] “The Growth Board Listing Guide”, by the Nigerian Exchange Group. <https://ngxgroup.com/exchange/listed-companies/>

Benefits of Listing on the Growth Board

- Proponents of the Growth Board believe that since the minimum free float is 15%, startups have no worry of losing ownership as they still retain 85% of their shareholding. The NGX also believes that it is offering an extremely low barrier for interested entities as the cost of being listed on the Growth Board compared to other Boards is small and they only have semi-annual or annual statement and filings to make with the NGX thereby reducing compliance requirements [11].

- The NGX states that Corporate Governance is key for branding, visibility, and customer acquisition. During the listing process, startups will have to beef up their corporate governance standards which will raise the visibility of the startup and potentially bring more investors to their doorstep [12]
- A lot of startups operate without getting any form of market valuation or the method they used for valuing their startup may be flawed. Listing on a public exchange can provide the startup with a proper valuation of its shares as well as a valuation that reflects true market value.
- The NGX also believes that startups will be able to access cheap and long tenured equity from the public as the entity continues to grow rather than constantly looking for investors which may continue to dilute the ownership of the entity [13].
- Startups may also have the option to tap into retail and institutional investors and these investors may invest in companies that have the potential to solve some problems Nigeria and the continent face, and have more investment opportunities to add to their portfolio.
- Investors and Founders may also see the listing on the Growth Board as an alternative and novel exit strategy for startups and tech companies in Nigeria as the common practice for exits is to get acquired by a larger company (like the acquisition of Paystack by Stripe [14])

or list in a capital market that has an abundance of investors and a highly developed capital markets (like the Jumia listing on the New York Stock Exchange [15])

However, every capital market has its peculiarities, and the Nigerian capital market is no different. Given the characteristics that are associated with it like illiquidity of the market, investor apathy, and bureaucratic measures that hamper the growth of investor confidence, criticism has slowly started to grow about the Growth Board and how it cannot create value for startups.

The Growth Board: another Asem Board?

The Growth Board and the Asem Board were created to achieve a similar goal of providing capital raising opportunities through the public markets to SMEs. However, SMEs were not interested in the Asem Board [16] because they saw no incentives to list, and they believed that the requirements were too stringent. The same thing may occur with the Growth Board, as the requirements to list are still tedious for startups and the Nigerian Capital Market has not shown any interest in investing in companies listed on any other Board apart from the Main Board and the Premium Board.

Local investors who seem to be interested in startups, pre-seed, and angel investments lean towards giving their funds to investment vehicles that guarantee a return on investment for them

[12] "The Growth Board Listing Guide", by the Nigerian Exchange Group. <https://ngxgroup.com/exchange/listed-companies/>

[13] "The Growth Board Listing Guide", by the Nigerian Exchange Group. <https://ngxgroup.com/exchange/listed-companies/>

[14] "Stripe acquires Nigeria's Paystack for \$200M+ to expand into the African continent" by Ingrid Lunden for TechCrunch, accessed 1 November 1, 2021.

<https://techcrunch.com/2020/10/15/stripe-acquires-nigerias-paystack-for-200m-to-expand-into-the-african-continent/>

[15] "Jumia listed on the New York Stock Exchange" by Jumia, accessed 1 November 1, 2021. <https://group.jumia.com/news/jumia-listed-on-the-new-york-stock-exchange>

[16] "Stockbroker's canvass easier access to ASeM Board for SMEs" by Helen Oji for the Guardian, accessed 1 November 2021. <https://guardian.ng/business-services/stockbrokers-canvass-easier-access-to-ase-m-board-for-smes/>

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