

Instruments, Valuation & Due Diligence



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Session objectives



Better Understanding of
financial instruments



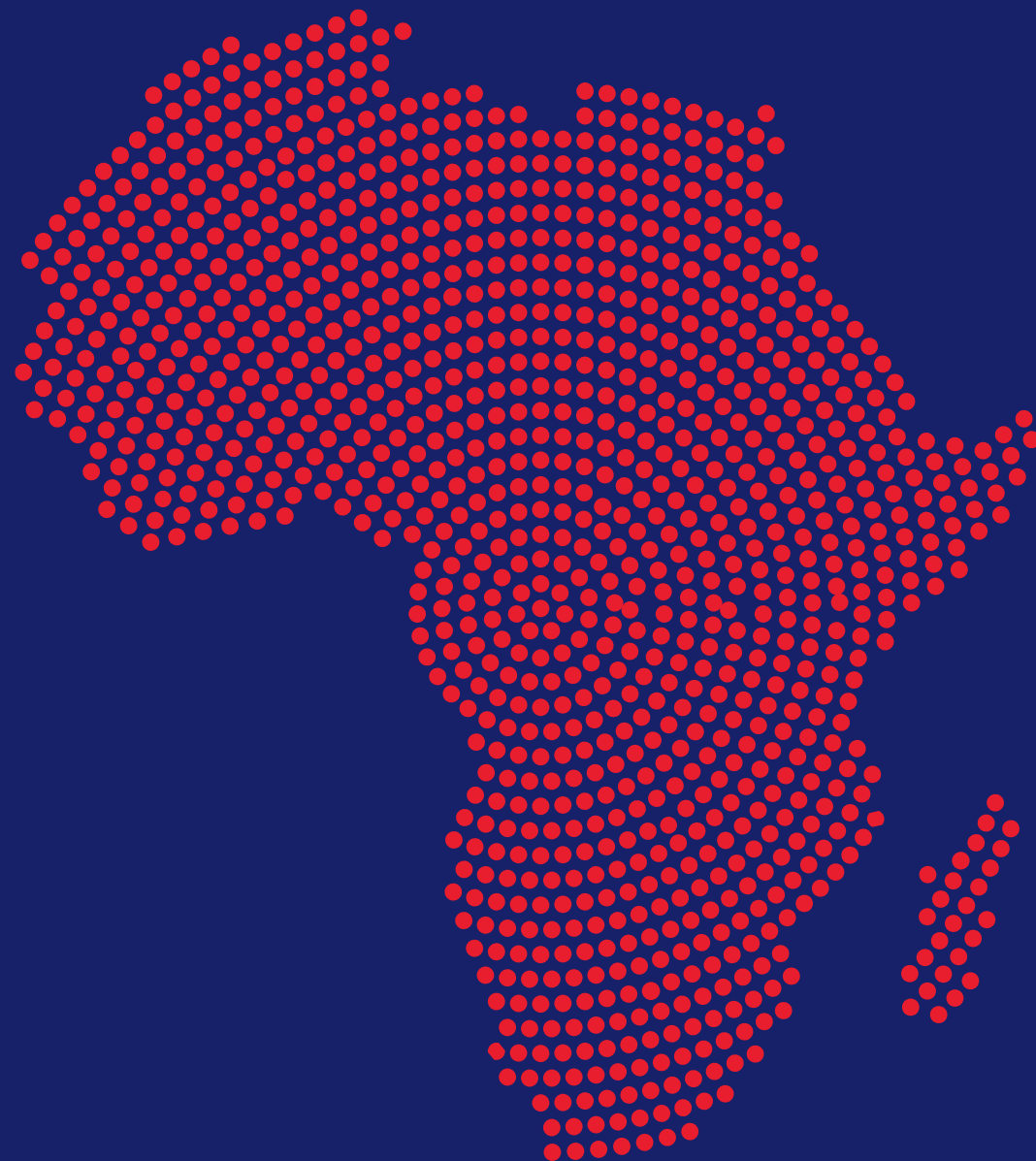
Engage better
on valuation



Manage a due
diligence exercise

01.

Financial Instruments



What is a financial instrument?



Definition

A financial instrument is any contract that gives rise to a financial asset for one party and a financial liability or equity for another.



Why it matters

Choosing the wrong instrument can dilute your ownership, create cash-flow pressure, or misalign your business with investor expectations.



Two broad categories

Debt (you borrow and repay) vs. Equity (you sell a stake). Each has advantages depending on your stage and risk appetite.



Hybrid options

Instruments like convertible notes and SAFE notes blend debt and equity features — popular with early-stage startups and impact investors.

Debt instruments — you borrow, you repay



Bank loans & overdrafts

Traditional lending from commercial banks (e.g., GTBank, Access, Zenith). Usually requires collateral and strong financials. Best for working capital needs.



Bond / debenture

Formal debt securities issued to multiple investors. Common at larger scale — often used by companies raising ₦500M+. Governed by SEC rules.



Microfinance & MSME loans

Products from LAPO, AB Microfinance, BOI, and DBN designed for SMEs. Lower collateral thresholds; interest rates vary from 15–30% p.a.



Trade finance / invoice discounting

Unlock cash tied up in receivables. Platforms like Duplo, Credley, and traditional bank facilities allow you to receive payment upfront at a discount.

Equity instruments — you sell a stake



Common equity

Core ownership shares — what founders and early shareholders typically hold. Full upside but last in line during liquidation.



Preference shares

Gives investors priority on dividends and liquidation proceeds. Often includes protective rights (anti-dilution, board seat, veto rights). Common with PE/VC investors.



Convertible note / SAFE

Starts as debt; converts to equity at a future round. Useful for early-stage deals where valuation is hard. Common with angel investors and accelerators.



Revenue-based financing

Investor receives a % of monthly revenue until a target repayment multiple is reached. No dilution. Suits businesses with predictable cash flows.

Choosing the right instrument – at a glance

Instrument	Ownership Impact	Repayment	Best For	Nigerian Example
Bank Loan	None	Fixed installments	Working capital, assets	GTBank SME Loan
Equity (PE/VC)	Dilutive	Dividend / exit	Growth capital	Helios, Uhuru
Convertible Note	Deferred dilution	Converts at next round	Seed / pre-Series A	Angel investors
Revenue-Based Finance	None	% of monthly revenue	Steady-revenue SMEs	Duplo, Lipa
Grant / DFI Funding	None	Often non-repayable	Impact-focused businesses	BOI, Tony Elumelu, BII

Nigeria's SME financing landscape – the numbers



₦48T

**SME
financing gap**

Annual unmet credit
demand (IFC estimate)



94%

**Excluded from
formal credit**

Share of SMEs lacking
bank access



28%

**Average bank
loan rate**

Typical SME lending rate
p.a. (2024)



70%

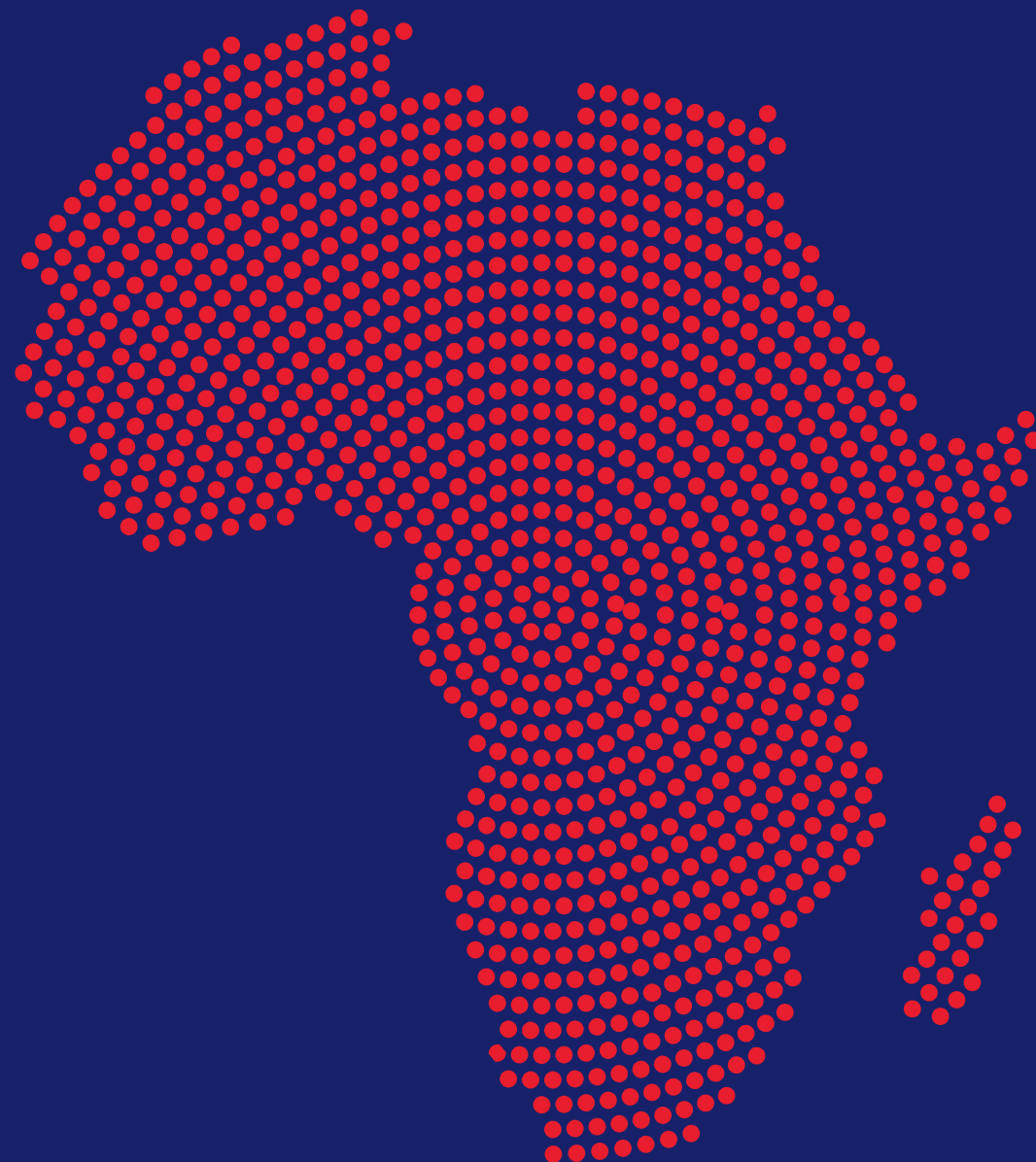
**GDP
contribution**

SME share of
Nigeria's GDP

Sources: IFC, CBN SME Report 2023, World Bank

02.

Business Valuation



Why valuation matters for business owners



It determines how much you give away

The higher your valuation, the less equity you dilute when raising capital. A ₦500M raise at a ₦2B valuation = 25% diluted; at ₦5B = only 10%.



It sets the negotiation anchor

Investors will challenge your numbers. Knowing your valuation methodology gives you confidence and credibility at the table.



It tracks business health

Regular valuation reviews (even informal) help you understand which business levers create the most value for stakeholders.



It matters at exit

Whether you're selling to a strategic buyer or returning investor capital, valuation drives the final payout to all shareholders.

Common valuation methodologies

Revenue multiple

Value = Revenue × Industry Multiple.
Simple and fast. Used for early-stage or high-growth companies where EBITDA is thin.

EBITDA multiple

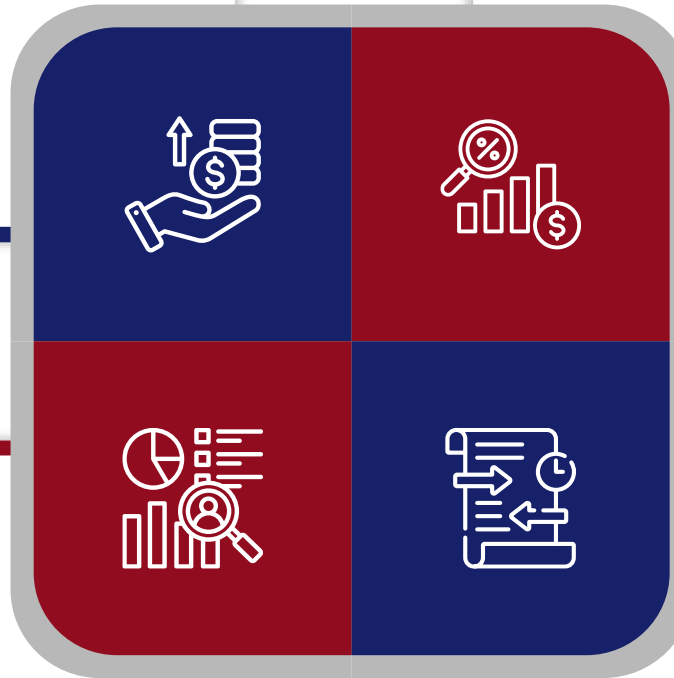
Value = EBITDA × Sector Multiple. Most common in PE. Nigerian PE multiples typically range from 4x–8x EBITDA.

DCF analysis

Discounts future cash flows to present value. Most rigorous but sensitive to assumptions (growth rate, WACC, terminal value).

Comparable transactions

Benchmarks against recent M&A deals in same sector/region. Requires access to deal databases (e.g., Bloomberg, Pitchbook).



What drives your business valuation?



Revenue growth rate

Consistent double-digit growth (20%+ P.A.) Commands premium multiples. Investors pay for future potential, not just current earnings.



Margin quality

High gross margins (40%+ for services, 25%+ for manufacturing) signal pricing power and operational efficiency — both rewarded by investors.



Management team

Experienced, committed leadership adds significant premium. Investors invest in people first, business second. Avoid key-person dependency.



Market position & defensibility

Strong brand, loyal customer base, proprietary technology, or exclusive contracts reduce perceived risk and increase willingness-to-pay.

Illustrative valuation: Nigerian manufacturing business



₦800M

**Annual
Revenue**

3-year
CAGR of 22%



₦180M

EBITDA

22.5% margin —
above sector avg



5.5×

**EBITDA
Multiple**

Sector: 4×–7×
range applied



₦990M

**Enterprise
Value**

₦180M × 5.5 —
pre-negotiation

Illustrative only. Actual valuation depends on full due diligence, capital structure, and market conditions.

How to improve your valuation before a raise



Clean up your financials

3 years of audited financials, clear revenue recognition, no commingling of personal and business accounts.



Demonstrate growth trajectory

Show a clear trend: revenue, EBITDA, customers. A rising trajectory — even from a small base — matters enormously.



Reduce concentration risk

If one customer or one product represents >40% of revenue, investors will discount heavily. Diversify ahead of a fundraise.

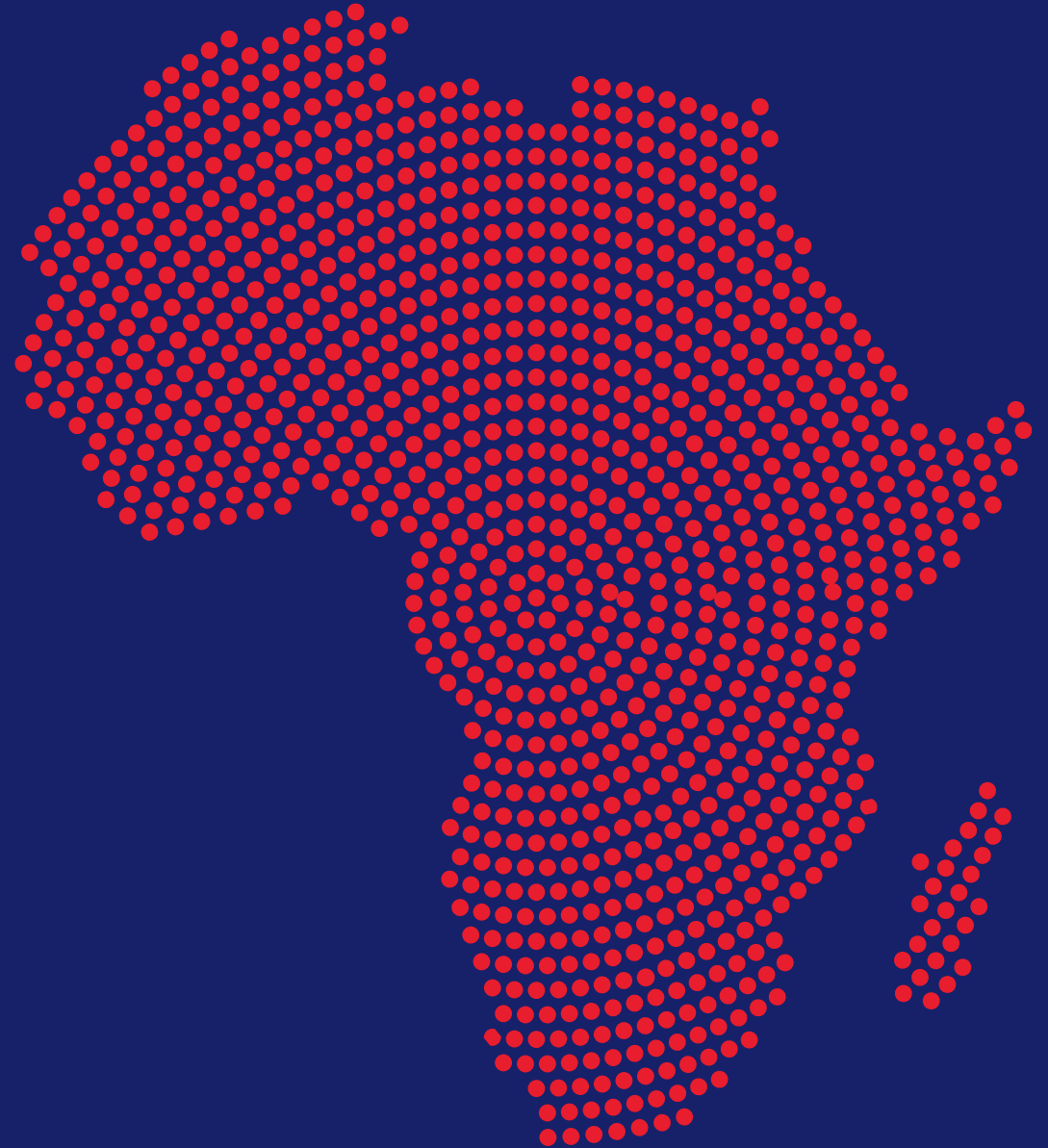


Formalise operations

Document processes, install ERP/accounting software, hire qualified FD/CFO. Formalisation signals scale-readiness to investors.

03.

Managing The Due Diligence Process



What is due diligence?

01.

Investor's risk assessment

Due diligence (DD) is the structured investigation a potential investor conducts before committing capital. It verifies everything you have claimed.

02.

Four core workstreams

Financial DD, Legal DD, Commercial/Market DD, and Operational /Technical DD. Each may involve different advisors and timelines.

03.

Typical duration

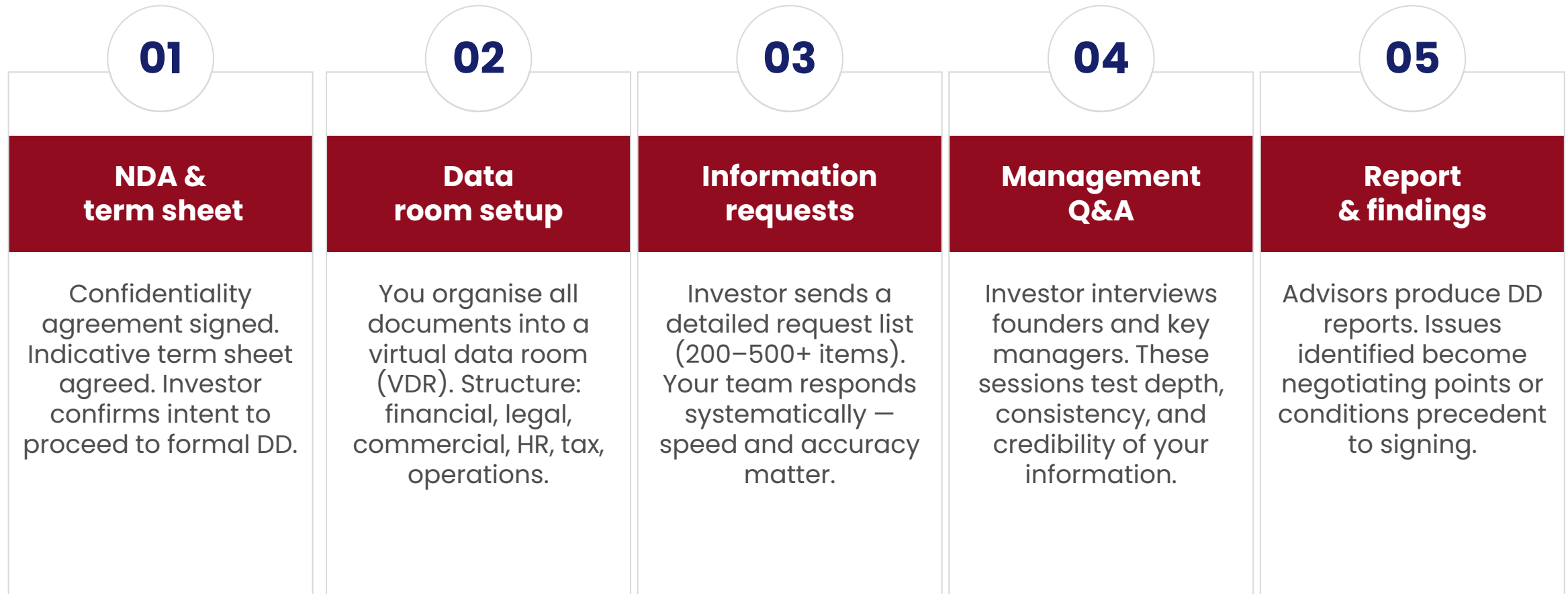
For a PE deal in Nigeria, full DD typically takes 6–12 weeks. Poorly prepared businesses can extend this by 3–6 months — or lose the deal.

04.

Who conducts it?

The investor leads and funds DD. They hire external lawyers, auditors, and consultants. You must facilitate — not obstruct — the process.

The due diligence process – stage by stage



Documents to have ready — before DD begins



Financial records

3 years audited accounts, management accounts (monthly), tax filings, bank statements, debtors & creditors schedules.



Legal & corporate

CAC documents, shareholders' register, board minutes, contracts with customers/suppliers, IP registrations, employment agreements.



Commercial evidence

Customer contracts, pipeline data, market research, competitive analysis, sales data by segment, key account information.



Operations & HR

Org chart, key staff CVs, process documentation, IT systems overview, operational KPIs, health & safety compliance.

Common red flags that kill deals



Inconsistent financial data

Discrepancies between management accounts, audited accounts, and tax filings are immediate trust-killers. Reconcile all numbers before DD.



Undisclosed liabilities

Hidden debts, pending litigation, or outstanding tax obligations discovered during DD almost always result in price adjustments or deal collapse.



Weak corporate governance

No board, missing minutes, informal shareholder agreements, or founder transactions that bypass proper approval processes signal high risk.



Over-reliance on the founder

If the business 'stops' when the founder is absent — investors see key-person risk. Demonstrate that processes and team can operate independently.

Best practices for managing the DD process

01.

Appoint a DD coordinator

Designate one senior person internally (or hire an advisor) to manage the data room, track requests, and maintain response timelines.

02.

Disclose issues early

Don't hide problems — they will be found. Proactively disclosing issues early builds trust and gives you more control over the narrative.

03.

Maintain business operations

DD is distracting. Set clear boundaries: protect key management's time, keep revenue flowing, and don't let DD become all-consuming.

04.

Use a virtual data room

Tools like Ansarada, Datasite, or even Google Drive (organised) keep documents secure, trackable, and accessible to investor teams globally.

Key takeaways

What every business owner should know

