



African Angel Academy

Case study



Paystack and Olumide Soyombo: Achieving Lift-off for Nigerian Tech



COMPANY	Paystack
LOCATION	Nigeria
SECTOR	Fintech
ANGEL	Olumide Soyombo
STAGE	Seed
ENTRY	2016
EXIT	2020
ENTITY	LeadPath

“PAYMENTS GIANT STRIPE HAS BOUGHT NIGERIAN PAYMENTS STARTUP PAYSTACK FOR AFRICAN EXPANSION” – QUARTZ AFRICA

On 15 October 2020, the headlines emblazoned across every major tech news platform carried the same thrilling news about the Nigerian fintech phenom Paystack. The acquisition, reportedly valued at US\$200 million, was a big deal – a very big deal. For Stripe, a Silicon Valley unicorn with global ambitions, it represented a major strategic move. They were already on a growth streak that year, having recently expanded services into five new European markets. The acquisition of Paystack – their largest to date – marked their official entry into Africa.

For Paystack CEO Shola Akinlade and CTO Ezra Olubi, it was the realisation of their long-held vision for the company. When they founded the fintech platform in 2014, they had not minced words about their vision of building a “Stripe for Africa”, and now, Paystack actually was. While Paystack would still retain its operational independence, the acquisition was going to power their expansion into other African markets. They had been in Ghana since 2018 and they planned to launch in South Africa in 2021.

For investors, it was the kind of exit every early-stage investor dreamed about. Angels who entered at the seed round in 2016 were estimated to have earned

a 1,400% return on investment (ROI) – the largest exit for Nigerian tech investors to date. For angel investor Olumide Soyombo, however, the exit was more than a lucrative cash out; it was a turning point for the Nigerian tech sector he had been helping to build out for more than a decade.

Olumide had been part of the Lagos tech ecosystem as an entrepreneur since 2008, when he founded Bluechip Technologies, which offered business intelligence solutions and services. In 2014, when he began to see digital platforms as the key to expanding the market and scaling services, he decided to become an angel investor, providing seed funding to local startups building software, mobile technologies, and digital platforms.

The experience immediately opened Olumide’s eyes to the reality of early-stage investment opportunities in Nigeria. He already knew from his own founding experience that local angel investors were scarce, but he had not realised that the local venture capital ecosystem was equally underdeveloped.

“There were no investors to pass deals onto,” Olumide recalled. “It made us realise that the follow-on investors we were looking for would

have to be us again.”

By the time Shola had approached him for seed funding for Paystack in 2015, Olumide knew angels would need to plan on a second seed, or even a third, to get these startups to the growth round. But in the years after Olumide became Paystack’s first Nigerian investor, local investors were still slow on the uptake, pushing Olumide to become one of the most prolific early investors in Lagos, where he had seeded 26 local startups by 2020. Which is why when Paystack exited at over US\$200 million to one of the world’s most highly valued unicorns, it sent an unmistakable signal to entrepreneurs and investors across Africa, and across the globe, that Nigerian tech was in the game.

In one sense, the deal felt like a culminating event for the founders of both Paystack and Stripe: a long-awaited milestone in their pursuit of financial innovation. But for local entrepreneur-investors like Olumide, the deal felt like a catalysing event: a starting point for many more founders in Nigeria’s tech sector.

“When Shola told me about the deal,” Olumide remembered, “the first thing I said was, ‘Now we have lift-off.’”

REWIND

When entrepreneurs succeed, society as a whole wins, whereas they almost single-handedly take on all the risk. So entrepreneurship is vital for this continent; entrepreneurs are the ones uniquely suited to solving the major challenges we have.”



It's 2008 and Olumide Soyombo has just had his first brush with investment, this time in the role of entrepreneur. He had just finished his master's in business information and technology after studying systems engineering as an undergraduate, and there was no question in his mind that he would be an entrepreneur. He co-founded Bluechip Technologies with Kazeem Tewogbade as an enterprise technology company providing vendor-neutral business intelligence solutions, data management services, and consulting services that would introduce industry best practices into local enterprises. His father made the first seed investment into the company – an equity deal of US\$30,000 for 50% of the company, with a share buyback agreement.

That same year, Shola Akinlade co-founded his first business: an open-source collaboration software company called Precurio. Inspired by the rise of cloud-based applications, Shola built the Precurio app as a data sharing and storage alternative to Dropbox for businesses in emerging markets. Olumide and Shola crossed paths in 2010 when a mutual friend introduced them. Initially, the Precurio app had been available for free as a download, after which it quickly gained traction and was soon offered in six different languages. The idea was to partner with Bluechip to package the app as a solution for local businesses. Olumide was impressed by the quality of the software, which was evident in the market reception.

“To show you how awesome the product was, people were using it in Brazil. From out of Nigeria, people had found it on the web and started paying for it,” said Olumide.

By the time Shola left Precurio in 2013, over 200,000 companies were using his software. It was still early days for both entrepreneurs at that point. Shola's next stop was developing software for local banks. Meanwhile, Olumide was trying to grow Bluechip at a time when business analytics and process automation solutions were still very new in the local market. And so for the next two years, the entrepreneurs focused on their own projects.



FUNDING THE FUTURE

“We wanted to solve a problem in the larger market. I’m a firm believer that certain companies just have to exist in certain ecosystems. An e-commerce player has to exist, a payments player has to exist, an education player has to exist, an API player for payments has to exist.”

Before long, Bluechip had become a prominent pan-African brand. After securing strategic partnerships with leading original equipment manufacturers, the company expanded into Zambia and the Democratic Republic of the Congo. In 2014, Bluechip was recognised by Oracle as their Specialised Partner of the Year for business intelligence and enterprise performance management operations in Africa. In spite of their success, Olumide had growing concerns about demand-side risks.

“At companies like Bluechip, who were working with all the major banks and telcos, our revenue was very concentrated amongst a few clients,” said Olumide. “So for example, in 2014, Bluechip was making about US\$5 million in revenue, but that was concentrated among two or three clients, so you lose one and that hits your bottom line immediately.”

The rise in mobile penetration and social networks across Nigeria increasingly drew Olumide’s attention to the data economy and platform-based business models

that could distribute customer risk among a broader client base. But it was not just about solving a problem for Bluechip, or seizing on a new opportunity as entrepreneurs.

“We wanted to solve a problem in the larger market,” Olumide explained. “I’m a firm believer that certain companies just have to exist in certain ecosystems. An e-commerce player has to exist, a payments player has to exist, an education player has to exist, an API player for payments has to exist.”

Olumide and his co-founder decided they needed to help more of these companies exist. In 2014, they made the decision to create a special purpose vehicle (SPV) called LeadPath, which would allow them to use their profit shares from Bluechip to invest as individual angels in local startups who could populate the emerging data economy. Initially, they modelled LeadPath after the Y Combinator accelerator in Silicon Valley: they would provide small seed funding, work with the entrepreneurs for three months, and then host a demo

day to pitch to other investors. With their fund of US\$1.5 million, they began making seed investments between US\$25,000 and US\$100,000 through capped simple agreements of future equity (SAFEs). However, reality soon set in and Olumide realised the model would not work within the current environment – not yet anyway.

For one thing, three months was not nearly enough time for the startups to accelerate. Even the most driven founders with the clearest visions were constrained by the pace of their corporate partners, their own expertise, or the existing infrastructure, which they had to work around. But even when founders managed to make significant progress with a minimum viable product (MVP), they faced a far more formidable challenge.

“We had seen MVPs built, business models proved, early customers, but then no follow-on investor with the cash to propel growth,” said Olumide.

▶▶ AN ECOSYSTEM APPROACH

“I typically invest in teams that have technical founders because the cost and time to market is reduced since you are not sending that work to an offshore shop to develop and come back,” explained Olumide. “So the technical founder can get things running right off the bat.”

Olumide realised that providing multiple rounds of seed funding as angel investors, and convincing others in their network to do the same, was probably the most important thing they could do for entrepreneurs given the state of the ecosystem at that stage. Still, Olumide acknowledged the challenge of attracting more people to become early-stage investors.

“It’s difficult for new angels because it’s a bit of a chicken-and-egg scenario,” Olumide said. “Everybody wants good deals, but how are you going to get them if you haven’t done a deal before? So I tell new angels, ‘You need to write those cheques quickly and as many as you can.’”

At the same time, Olumide saw that angels with his experience and access had an opportunity to plug founders into their networks and help them to build relationships with major stakeholders, which in turn helped angels to find more deals.

“People know me as someone who writes cheques quickly, and so they direct founders to me, but it’s not just about the money. We are also opening doors to founders. We are the ones helping them with regulatory engagements, we are introducing them to corporate Nigeria,” said Olumide. “So when new founders are looking for funding and they talk to older entrepreneurs, they refer new founders to angels like us who can add that value for them.”

In addition to using this ecosystem approach to build networks among entrepreneurs, Olumide and Kazeem applied this strategy to promote tech and build capacity in other parts of the system. Olumide believed in investing in entrepreneurs with strong technical competencies, but to do this, he was dependent on the local education system to produce a steady pipeline of developers, data scientists, and programmers. Bluechip therefore began playing an active role in this system by sponsoring data science

competitions at local universities, hosting tech bootcamps and hackathons, and running internship programmes at their company for young techies.

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And so, when Shola – a software development superstar with a proven track record – approached Olumide in 2015 about his latest idea for a payments platform, it was a no-brainer. Equally important, Olumide had seen Shola work up close during the Precurio collaboration and gotten to know his character. He was prepared to back Shola above almost anyone. Most exciting of all, Shola was onto something that no one else in Lagos was doing.



A FRAGMENTED MARKET

“For angel-level deals, one of the reasons institutional investors miss out is because they over-flog the due diligence for an early-stage business. And founders feel that these investors can’t move quickly, can’t get them the funding they need quickly, so they will move onto someone who they think can help.”

Paystack arose, in part, from Shola’s own pain point with accepting online payments during his Precurio days. In the 2010s, there were simply no solutions available locally. But it was not until 2014, while working with Nigerian banks, that Shola landed on the path toward a payments platform for small businesses.

“I spent the entire 2014 implementing payments and disbursement solutions for banks and I realised that most of the infrastructure needed to build a full stack payments API already existed, and it just needed someone to do the hard work of putting it all together and doing all that is necessary,” explained Shola . “I finished the engagement in November 2014 and immediately created Paystack.”

When Shola approached Olumide, he had not yet built any software. He had strung together a few charging and billing features, which he had tested, but there was no platform, website, or formal prototype in place. Olumide was not concerned in the least.

“I knew Shola to be a star. If Shola was building something, I was ready to give him money. So it was about my relationship with Shola and knowing the credibility he had built – that was the most important thing.”

The second most important thing was that Shola’s idea filled one of the clear gaps in the larger market that Olumide was so focused on. Shola could see that no one was building a payments service that specifically catered to startups, who were dependent on payment integration to develop their own MVPs. Moreover, there was a large, fragmented market of small businesses that they could serve with this platform. And this was just in Nigeria; African countries more broadly faced similar challenges of financial inclusion, market fragmentation, and business formalisation.

As Shola described it to everyone, Paystack would be a “Stripe for Africa”, referring to the American-Irish company that was leading the way in online payments in the U.S. In effect, Shola was describing

one of the businesses that Olumide felt “needed to exist”. True to form, Olumide was quick to write a cheque – a small one, in the form of a capped SAFE.

“For angel-level deals, one of the reasons institutional investors miss out is because they over-flog the due diligence for an early-stage business. And founders feel that these investors can’t move quickly, can’t get them the funding they need quickly, so they will move onto someone who they think can help,” Olumide explained. “So there has to be a middle point between diligence and speed in terms of helping the founders, especially as more successful startups come into the ecosystem.”

To maintain speed, Olumide relied on two reference points for his due diligence process. The first was the source of the deal and getting referrals from trusted members of his entrepreneurial network. The second was the founder track record, expertise, and character. This included determining if the founder had taken risks or sacrificed for the venture. >>

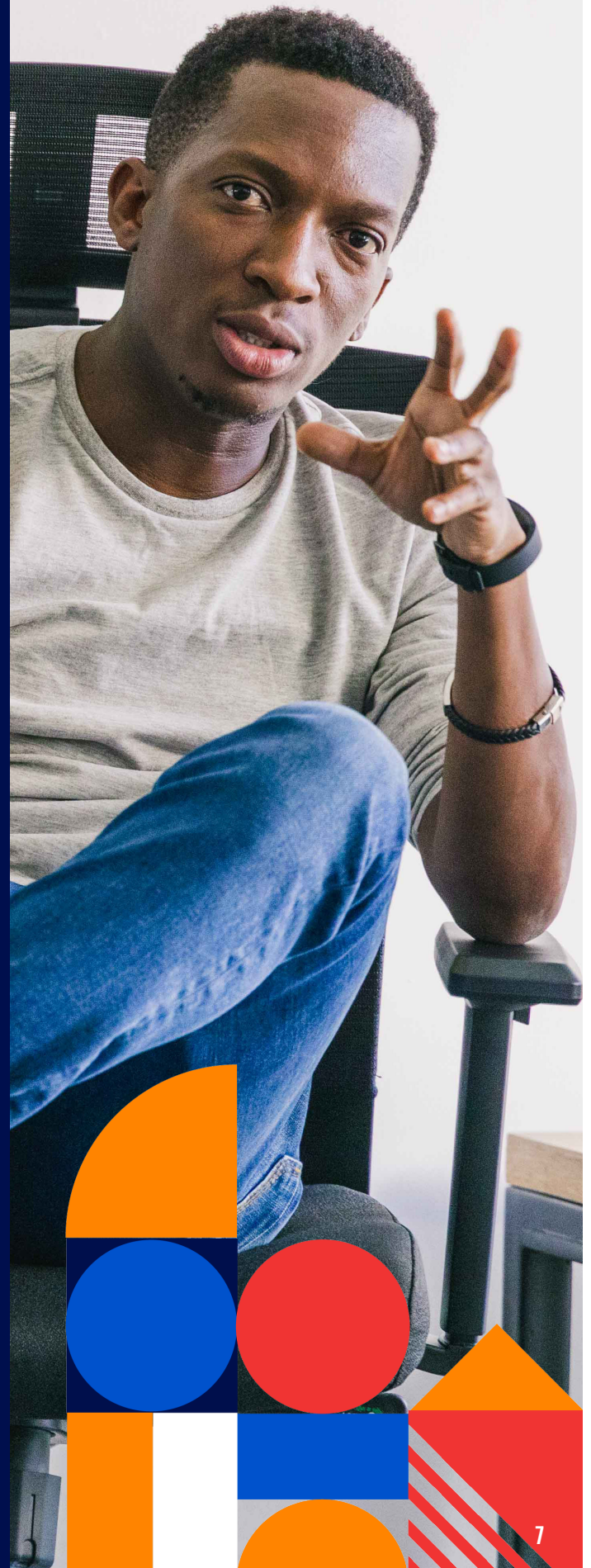
“Anyone who is asking a founder at an early stage for a business plan with projections in Excel is wasting their time because the biggest work of fiction is an Excel sheet,” said Olumide. “Most times, everything is going to change so it’s really of no value to you at an angel stage to ask the founders to go write a product memo about what they are building. It’s really about the founder.”

It was not just the nature of the startup ideation phase that justified a light due diligence for Olumide. It was also about making diligence proportionate to cheque size.

“These are angel level deals – it’s US\$15k, US\$20k, US\$30k – so it doesn’t affect school fees or the house. And I don’t want to lose money, but if I do, it won’t affect food on the table,” said Olumide. “Angels need to have that kind of mindset, especially if you are going to invest in this country because some things might just go belly up, no matter how much you try to diligence it.”

Olumide’s investment philosophy was therefore simple: make bets early, and make them on the founder. Still, Olumide felt strongly about the importance of having clear boundaries in one’s investment strategy.

“For every angel, you need to have some discipline about what you will do and what you won’t do because there will always be deals. But you need to decide your boundaries,” Olumide explained. “So for example, I always do capped SAFEs and very early, and only up to a certain cap. Once a deal cap is more than US\$10-12 million, I’m out because your upside is really limited – you’re betting that this company is going to be a US\$150 million company and not many of those are going to happen. And beyond a certain stage time-wise, the boat is gone. And there’s an opportunity cost as a capital allocator, so I’d rather put that US\$20k in another US\$500k- or US\$1 million-capped company.”





FLYING HIGH

“Paystack validated the market and the industry for others to also succeed.

That’s what Paystack did.”

Over the next five years, Paystack’s trajectory was one of continuous achievement and hype, with each milestone seeming to confirm that Olumide’s bet on Shola was well placed. First, in 2016, Paystack became the first Nigerian startup to be accepted into the prestigious Y Combinator accelerator in Silicon Valley, which landed them an additional US\$120,000 in seed funding and the attention of several future investors and partners, including Stripe CEO Patrick Collison.

Right away, Paystack began seeking out top talent to build the best possible product. Shola recruited up-and-coming developers, former bank workers, and project engineers from older fintechs to form the Paystack dream team. The talent, energy, and spirit Paystack harnessed in its early years became a major differentiator as the business grew.

“If you ask people today what company they want to work for in the tech ecosystem,” Olumide explained, “Paystack will rank number one. People would often ask me if I could pass a CV to Paystack since I was an investor. But I would tell them, ‘It’s not going to change anything if I send your CV’. Shola is only going to hire the best person and he never compromised on that. And I think that built that culture of excellence within the company. That’s what made them stand apart. The product would sell itself.”

Many of Paystack’s investors and partners pointed to the company’s clear

“roadmap” as the core around which the team and culture grew. Olumide saw how this vision took root from the company’s earliest movements.

“Shola built that culture of excellence and it’s crazy because he had never really built a company before, so how did he do that? I think the exposure to Silicon Valley, sitting down with the Y Combinator team, sitting down with the Stripe founders, Shola knew exactly what he was going to build very early on and he didn’t compromise on that,” said Olumide.

Shola’s strong vision for the product and the team he wanted to build complemented Olumide’s approach as an angel investor.

“I focus more on the strategic things that founders can’t typically deal with themselves, leveraging my network to help the founders reach their objective. For example, if it’s a fintech looking for a bank to partner with,” Olumide said. “So I’m not focused on product development or technical expertise. After all, that’s why I invested in the startup, because they understand the tech better than I do.”

Olumide’s biggest priority for Paystack was to convince all of his partners to switch to Paystack’s services and to introduce their team to big-ticket clients who could drive volume quickly. In 2016, Paystack was doing roughly ₦1 million (US\$3,000) in monthly transaction volume. By mid-2017, they hit the ₦1

billion (US\$3 million) milestone. In 2018, they reached the ₦10 billion milestone. That same year, they made their first international expansion into Ghana and the world took notice.

In August 2018, Paystack raised US\$8 million in Series A funding in a round that included strategic investors Tencent, Visa, and Stripe, who led the round. Already, buzz was growing about a potential future acquisition.

“If you speak with Shola,” Olumide explained, “having Stripe lead the round was as good as it gets – he was going to take Stripe over anyone else because that was the model. And interestingly, the model type of the founders. The two of them – Shola and Patrick – have a lot of similarities. They are both very technical, and they are cooperative guys who just want to ship products.”

This symmetry between the two companies made it all the more satisfying for investors when the acquisition came to fruition in late 2020. By that time, Paystack was processing 50% of all online payments in Nigeria and had over 60,000 clients on the platform, including giants like MTN. In just five years, Paystack had managed to increase the overall online payment capacity in Nigeria by 500%. As a result, they had lowered the barrier to entry for thousands of startups and small businesses across the country.



PAVING THE WAY



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In 2018, they reached the ₦10 billion milestone



Also in 2018 they made their first international expansion into Ghana



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2020: Stripe acquires Paystack for \$200M+

The impact of Paystack's success on the Nigerian tech sector was immediate and far-reaching.

“The valuation was a sweet spot for us as angel investors. Dilution keeps happening and at some point, it doesn't make sense to stay in that long, so it was a good exit point. And it was good for the ecosystem to have such an exit,” Olumide explained. “Some of the money stayed here so that the angels could go on to invest in other companies. The Paystack founders and employees now also have the funds to invest in other companies they find and in their colleagues. I'm going to invest in people who have left Paystack to start their own ventures – Brass and Mono are both founded by Paystack alums. So it's that lift-off moment.”

The deal also seemed to pave the way for more major deals. In March 2021, fellow Nigerian fintech Flutterwave announced that it had raised over US\$170 million in a Series C round, giving the company a valuation of over US\$1 billion. This made them Africa's first “real” unicorn – they were an indigenous firm that reached the US\$1 billion valuation while still in the startup stage.

“Paystack validated the market and the industry for others to also succeed. That's what Paystack did,” Olumide said.

At the same time, he acknowledged that the increased focus of investors on opportunities in Nigeria and Africa more broadly – the very thing he had wanted to stimulate – also introduced the risk of over-valuations. Looking to the future, Olumide felt local investors had a massive role to play in mediating the ecosystem they had helped to create.

“There are two sides to this issue,” he said. “The first is that early investors give valuations to companies that don't deserve them, the companies don't perform, and then investors get their hands burnt and discredit the market. So the onus is on entrepreneurs and investors in the ecosystem, like us, to educate. The second issue is that Silicon Valley investors may come in at high valuations, but as we saw in 2014, we actually need them as follow-on investors. So as long as we can pass deals off to them, we can maintain the balance there.”



DISCUSSION QUESTIONS

Olumide has a particular approach to due diligence which focuses more on the entrepreneur and their track record, with minimal commercial due diligence.

Q

What do you think of this approach and how do you balance your due diligence between the team and the commercial aspects? Do you think having successfully done business in the past with a founder is enough due diligence and would you make the investment in that situation?

Olumide states that "People know me as someone who writes cheques quickly, and so they direct founders to me, but it's not just about the money. We are also opening doors to founders. We are the ones helping them with regulatory engagements, we are introducing them to corporate Nigeria".

Q

How do you think this reputation has shaped his deal sourcing strategy and how can you build your reputation as an angel investor so that the best deals are referred to you?

Having a clear investment thesis and clear deal parameters are important for angels, as Olumide explains.

Q

What are your deal parameters in terms of sector, deal valuations or caps, business model, etc?

Paystack had a very clear growth path and exit plan from the outset and strategically brought potential acquirers into their Series A round (Stripe, Visa, and Tencent).

Q

As an angel, how do you start prepping your founding teams to think of exit options early on and would you consider encouraging your portfolio companies to bring on potential acquirers in future rounds?

There are pros and cons of having a potential acquirer invest in a business before acquisition, and some say Paystack exited too early.

Q

What are your views on this and how would you advise a founder of yours if a similar situation like this occurred?

The case study ends with Olumide commenting on the entry of foreign investors looking to deploy more investment into local markets.

Q

As an angel, what are some of the risks and benefits of having more foreign investors in your market? How could you mitigate against these risks and also leverage relationships for your own portfolio?

Keywords

Fintech, acquisition, networking, sourcing, unicorn, local investors, ecosystem



The African Angel Academy is an African-led initiative that aims to train and support new or current angel investors through a self-paced online course, sponsored cohort programmes with top partners, and through building an engaged learning community of early-stage investors. For more information visit our website www.africanangelacademy.com

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