Mergers and Acquisitions

Presentation at the Surveyors’ pre conference on Friday 28th April 2017 at Imperial Resort Hotel - Entebbe
Out line of the Presentation

• Introduction
• Accounting firms in Uganda
  – Challenges of operating small practices
• The M & A story for Uganda
• The outlook of major sectors
• The Lessons for Surveyors
**Introduction of Mergers and Acquisitions**

**Definition of a Merger**

Combining of two business entities under common ownership (Arnold 2005)

Or

Two firms coalesce and share resources in order to realise a common goal

But

One party almost always dominates so
Definition of an Acquisition

One firm buys the **assets or shares of** another

Takeover implies the acquiring firm is **larger than the target**

Reverse takeover if the **target is larger** than the acquirer
Introduction of Mergers and Acquisitions

M&A

Acquisitions
- Business Purchase
  - Slump Sale/Itemized Sale
- Share Purchase

Corporate Restructuring
- Capital Re-organ
  - Buyback
  - Capital Reduction
- Merger/Demerger
  - Amalgamation
  - Demerger
Classification of Mergers & Acquisitions

On the basis of Value Chain

• **Horizontal M&A** – acquiring and target companies are competing firms in the same industry

• **Vertical M&A** – combination of firms in the client-supplier or buyer-seller relationships

• **Conglomerate M&A** – acquiring companies which operate in unrelated business
Classification of Mergers and Acquisitions

On the basis of relationship

• Friendly M&A – acquisition in a friendly manner with approval from Board and shareholders of the target company

• Hostile M&A – pitting the offer against the wishes of the target
On the basis of economic area

• **Domestic M&A** - the firms involved originate from one country and operate in that economy-country.

• **Cross-border M&A** - two firms located in different economies, or two firms operating within one economy but belonging to two different countries.
Accountancy is regulated by law in Uganda under the Accountants Act

- There are over 2,700 professional accountants, 1,600 Associates, 10,000 students. Uganda’s needs estimated at 9,000 professionals.

- Over 196 firms are licenced to carry out public accountancy services with 360 practitioners.
Accounting Firms in Uganda

- **Accountancy services include** Audit and Assurance, Tax advisory, Business advisory, Compilation, liquidations and Consultancy, Forensic audits and special investigations.

- **Employed in Business, Government and Public Practice**

- **Over 290 firms are licenced to carry out public accountancy services.**
• Majority of the firms are sole practitioners without the requisite competencies to undertake 4 to 5 multiple audits worth USD10,000.

• The same firms are unable to adhere to the rigorous quality control framework expected of them by regulation.

• Majority of them undertake audit as a part-time practice.
Challenges faced by small firms

• Cant attract quality staff besides maintaining them.

• Underquote themselves – They are price takers.

• Lack experience and mentorship.

• Face a going concern threat themselves and therefore cannot maintain independence.
Challenges result into;

• **Under delegation.**

• **Compromised skill building.**

• **Low Morale, demotivation and dissatisfaction.**

• **Under investment for the future.**

• **Absence of client focus – Quality work does not necessarily translate into Quality Service**
What should have been the focus?

• Creating Opportunities to demonstrate initiative and competence.

• Digging out new intelligence on new needs.

• Assembling evidence of new needs.

• Creating awareness of new needs.

• Forging strategic partnerships and alliances to earn more.
The case for Uganda
• Most M & A s have not been that successful even though viewed as such.

• There is a need for systematic and diplomatic approach to the process.

• There are however a number of success stories - .

• Pricewaterhouse merged with Coopers
Do Mergers succeed in Uganda?

• PKF merged with KLSA and then later with AA & L in 2014.

• The firm is now ranked among the largest in Uganda

• How did it happen?
Prior to a merger, both firms had a complete business plan to which they were committed.

- The combined name,
- Marketing,
- Roles of each partner and key staff member,
A complete business plan

- a complete transition plan including the message that will be given to clients and staff,
- and the method to be used to notify varying groups of clients.
Keep the most important resource in mind

• Make sure **culture** is addressed early in the process.

• Employees transition best when their **original work environment** is maintained to the extent possible to accommodate **existing policies and other operational features**
A Proper deal structure

• A properly structured deal in which both firms had wins.

• If one party negotiates a tremendous package **strictly to their benefit**, this may potentially disenfranchise the other party and **cause the deal to break down**.
Some deals struggle because changes are made too soon in the way one of the firms operates.

The successor firm in a merger should recognize in advance that staff and clients liked the way the other firm’s practice was run.

That’s why they chose to do business or practice there.
What about fees?

• Fees that historically have been set annually that are immediately converted to a monthly cycle are an example of a modification that can hurt client retention.

• Of course, wholesale increases in the level of fees may be rejected if introduced too soon.
• Normally, for a merged firm to start operating efficiently, technology platforms have to be brought into conformity.

• However, a failure to invest adequate resources in upgrades, conversions and training can lead to poor execution of the technology transition, causing frustration and, in the end, higher costs.
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<td>• SMAC (social, mobile, analytics and cloud) applications – the emerging game changer.</td>
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<td>FINANCIAL SERVICES</td>
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<td>• Insurance leads FS sector</td>
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<td>• Entering payment solutions</td>
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<td>• More are worried about risk</td>
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<td>• Online transaction through payment banks</td>
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<td>INFRASTRUCTURE</td>
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<td>• Clean energy increasingly on the radar of overseas players</td>
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<td>• Focus on expansion drives deals in logistics</td>
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<td>• The light railway system around Kampala and the SGR deals</td>
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<td>MEDIA &amp; ENTERTAINMENT</td>
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<td>• Increasing demand for digital platforms</td>
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<td>• Consolidation in movie exhibition segment &amp; regional consolidation in broadcasting</td>
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<td>PHARMACEUTICALS</td>
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<td>• Quality Chemicals attempted to list recently</td>
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<td>• Domestic consolidation remained prominent in branded generics</td>
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<td>REAL ESTATE &amp; HOSPITALITY</td>
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<td>• Corporate demand &amp; realistic valuation aid deals in hospitality sector</td>
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<td>• Real estate growth has slackened as the market appears saturated but the sector has great potential to re emerge</td>
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<tr>
<td>RETAIL &amp; CONSUMER PRODUCTS</td>
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<td>• Domestic action in F&amp;B – packaged foods &amp; alcoholic beverages</td>
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<td>• Online retail segment – increasing prominence</td>
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<td>• Personal care – new avenue for growth</td>
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<td>TRAVEL SERVICES</td>
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<tr>
<td>• Online taxi aggregators taking inorganic route to scale up</td>
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<td>• Exciting time for online tour and hotel aggregators</td>
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**Outlook**

- **TECHNOLOGY**: Strong year ahead as the region moves on the path of digitization
- **FINANCIAL SERVICES**: A slump in this area as the economy struggles to regain its feet.
- **INFRASTRUCTURE**: A promising road ahead (100% FDI in most of the infrastructure segments)
- **MEDIA & ENTERTAINMENT**: Sustained momentum expected in coming years
- **PHARMACEUTICALS**: International Markets – an avenue for continued growth
- **REAL ESTATE & HOSPITALITY**: Absence of adequate government spending and the drop in the marginal propensity to save
- **RETAIL & CONSUMER PRODUCTS**: Outbound deals to increase in personal care; consolidation in e-retail segment
- **TRAVEL SERVICES**: Consolidation & acquisitions of new age companies will help sustaining the momentum in the coming year
Benefits of Mergers and Acquisitions

- ECONOMIES OF SCALE
- GREATER EFFICIENCIES & OPERATIONAL SYNERGIES
- ACCESS TO NEW GEOGRAPHIES & NEW PRODUCTS
- BRINGING IN NEW TECHNOLOGY & ENHANCING CAPABILITIES OF FURTHER INVESTMENT IN TECHNOLOGY
Benefits of Mergers and Acquisitions

- TURNAROUND / REVIVAL STRATEGY
- DIVERSIFICATION
- BRINGING TALENT & EXPERTISE
- RISE IN NATIONAL COMPETITIVENESS
- ACCESS TO FOREIGN CAPITAL AND CAPITAL MARKETS
- INCREASE IN FDI & FOREIGN EXCHANGE
Need we do anything?

At the global level, it is happening – the local inter
Facing service providers had better be organized.
right people
right size
right solutions
Thank you for your ATTENTION!!!