

Mergers and Acquisitions

Presentation at the Surveyors' pre conference on Friday 28th April 2017 at Imperial Resort Hotel - Entebbe



- **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**



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

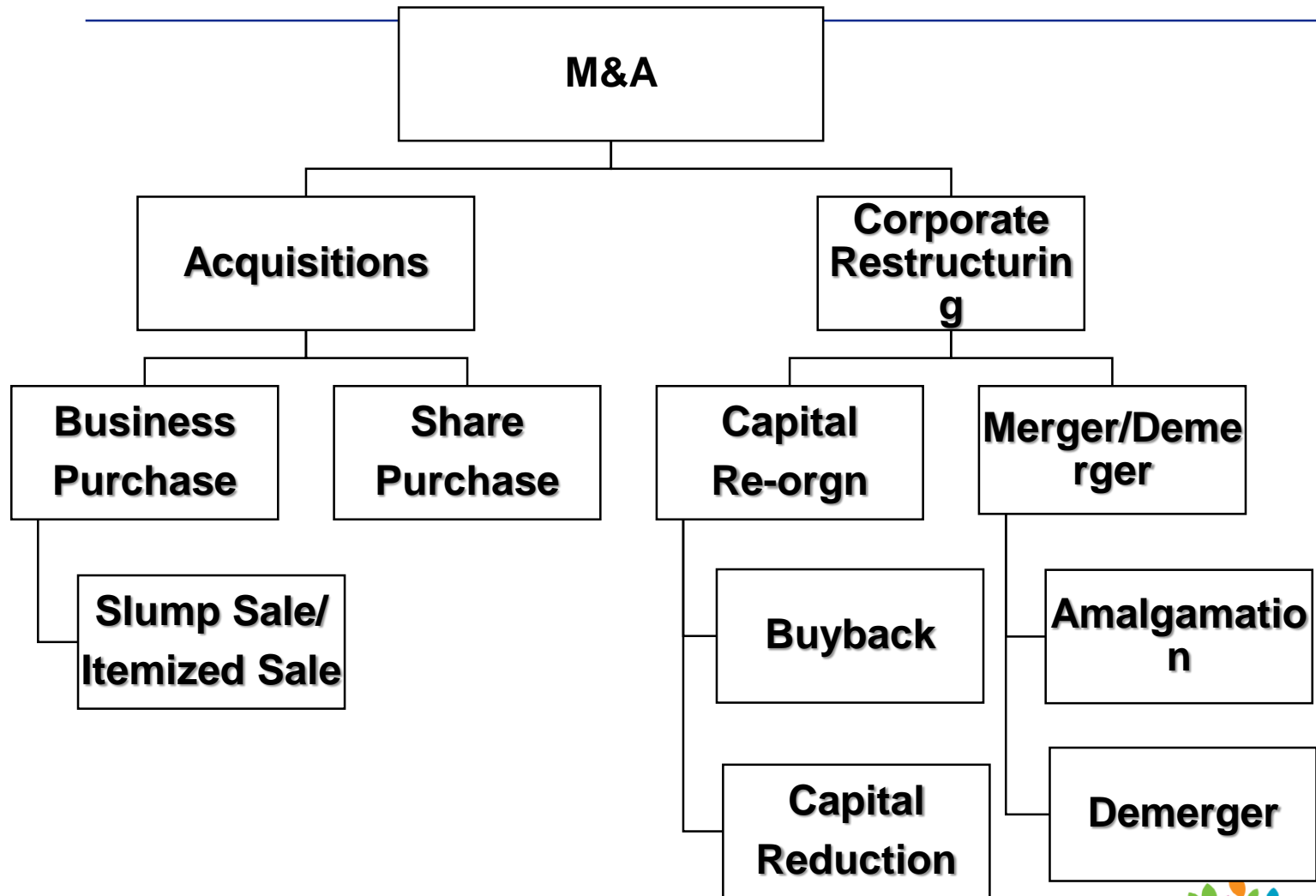
One firm buys the assets or shares of another

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



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



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, 1600 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.**



- **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.**



- **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.**



- **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**



- **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**



- **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 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 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.**



- 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**.



SECTOR WISE FOCUS AND OUTLOOK - UGANDA

TECHNOLOGY	<ul style="list-style-type: none"> SMAC (social, mobile, analytics and cloud) applications – the emerging game changer. 	Strong year ahead as the region moves on the path of digitization
FINANCIAL SERVICES	<ul style="list-style-type: none"> Insurance leads FS sector Entering payment solutions More are worried about risk Online transaction through payment banks 	A slump in this area as the economy struggles to regain its feet.
INFRASTRUCTURE	<ul style="list-style-type: none"> Clean energy increasingly on the radar of overseas players Focus on expansion drives deals in logistics The light railway system around Kampala and the SGR deals 	A promising road ahead (100% FDI in most of the infrastructure segments)
MEDIA & ENTERTAINMENT	<ul style="list-style-type: none"> Increasing demand for digital platforms Consolidation in movie exhibition segment & regional consolidation in broadcasting 	Sustained momentum expected in coming years
PHARMACEUTICALS	<ul style="list-style-type: none"> Quality Chemicals attempted to list recently Domestic consolidation remained prominent in branded generics 	International Markets – an avenue for continued growth
REAL ESTATE & HOSPITALITY	<ul style="list-style-type: none"> Corporate demand & realistic valuation aid deals in hospitality sector Real estate growth has slackened as the market appears saturated but the sector has great potential to re emerge 	Absence of adequate government spending and the drop in the marginal propensity to save
RETAIL & CONSUMER PRODUCTS	<ul style="list-style-type: none"> Domestic action in F&B – packaged foods & alcoholic beverages Online retail segment – increasing prominence Personal care – new avenue for growth 	Outbound deals to increase in personal care; consolidation in e-retail segment
TRAVEL SERVICES	<ul style="list-style-type: none"> Online taxi aggregators taking inorganic route to scale up Exciting time for online tour and hotel aggregators 	Consolidation & acquisitions of new age companies will help sustaining the momentum in the coming year

- **ECONOMIES OF SCALE**
- **GREATER EFFICIENCIES & OPERATIONAL SYNERGIES**
- **ACCESS TO NEW GEOGRAPHIES & NEW PRODUCTS**
- **BRINGING IN NEW TECHNOLOGY & ENHANCING CAPABILITY OF FURTHER INVESTMENT IN TECHNOLOGY**



- **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



END



**Thank you for your
ATTENTION!!!**