

# EXPLORE REASONS BEFORE THE BIG MERGE

Any business considering a merger or acquisition should first consult its greatest source of market and competitor information – the client

**M**ergers and acquisition activity in SA is regaining some momentum after the low levels of 2009 where deal activity was down 61% from 2008; this uptick is in spite of reduced availability in the corporate debt and equity funding markets.

This makes sense. As prevailing economic conditions restrict organic growth opportunities, business leaders look for acquisitions or mergers to improve market competitiveness and enhance overall earnings.

Acquisitions are less risky than mergers; they are structurally less complicated and operational implementation is less risky. Key issues are normally quite clearly defined in terms of who will be boss, what structures will be put in place and what culture will dominate.

The SA corporate market is very mature and has proven professional capability in making sound acquisitions; we need only look at companies such as Bidvest or Altech, which have created enormous shareholder value through successful acquisitive growth strategies.

On a more technical note, the one point any would-be acquirer or vendor should pay particular attention to is the new Company's Act, especially Section 112–116; certainly not for the faint-hearted as it makes execution of any merger or acquisition transaction much more time consuming and onerous.

Mergers lead us further into murky waters as we have to deal with many more complex issues in bringing together two organisations with unique DNA in leadership, culture, strategy and operating models. All the accounting, tax and legal specialists can structure the numbers and governance issues, but the reality is that the restructuring cost implications of a merger generally far outweigh



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the financial benefits, especially in the first 12–24 months. Few institutional investors look beyond that time horizon for value accretion.

So, should SA companies be considering mergers in current hostile regulatory and trading conditions? The short answer is yes! But do it for the right reasons.

Short-term 'synergies' and 'cost optimisation' are not the reasons to undertake a merger – leave that jargon to the consultants. Rather raise the horizon and look at the broader competitive dynamics in your industry and market. The old

business adage that the big eat the small is no longer relevant. In today's aggressive economy the fast eat the slow, so merging two businesses for sheer scale is not the best strategy to follow.

How to assess the right commercial and financial imperatives to merge with a competitor or integrate up and down the value chain is every CEO's biggest challenge. There is one little oracle of wisdom that most corporate decision-makers tend to ignore in walking this minefield of merger decision-making; and that font of information is none other than your client.

The long-standing client of any given business is a great independent source of information on your industry – they would've dealt with many of your competitors or at least have detailed insights and comparative views of products and services across the competitive landscape.

The client will also often have valuable insights into the cultures and leadership issues within various competing or collaborating businesses in a given market sector or value chain that may determine the success or failure of a merger.

Any CEO or board of directors considering a merger should engage with key clients and ask some probing questions. You may not like all the answers you get, but the reality is that unless your merger adds tangible value to your client, it is unlikely to create a sustainable competitive advantage in your business or grow shareholder value in the long term. 

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