

Masterclass #8: Is Now a Good Time for Expansion and M&A?

Presented by:
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Agenda

Intro & Overview

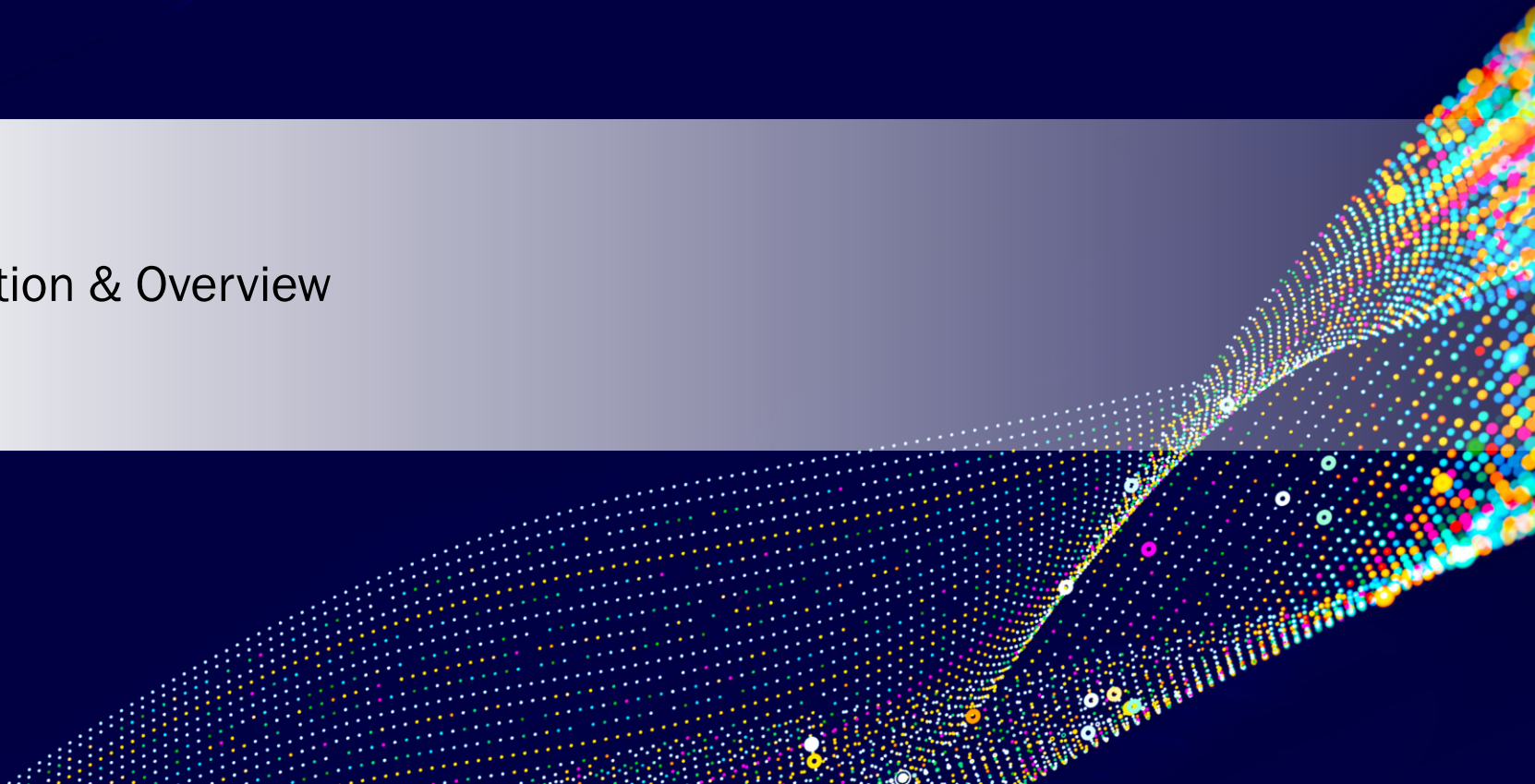
Why do M&A?

Is there a right time to do M&A?

Cross-border M&A – additional considerations



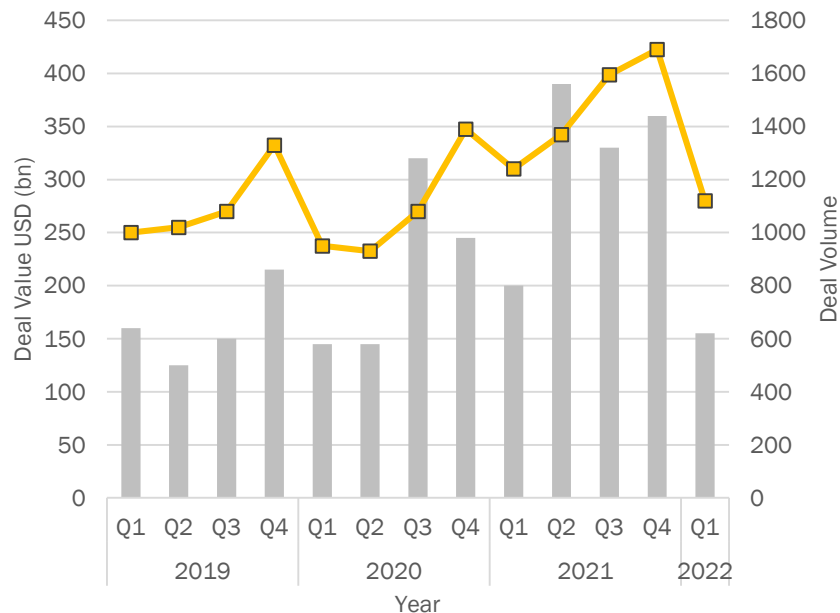
Introduction & Overview



ASEAN M&A deal activity | 2019-Q1 2022

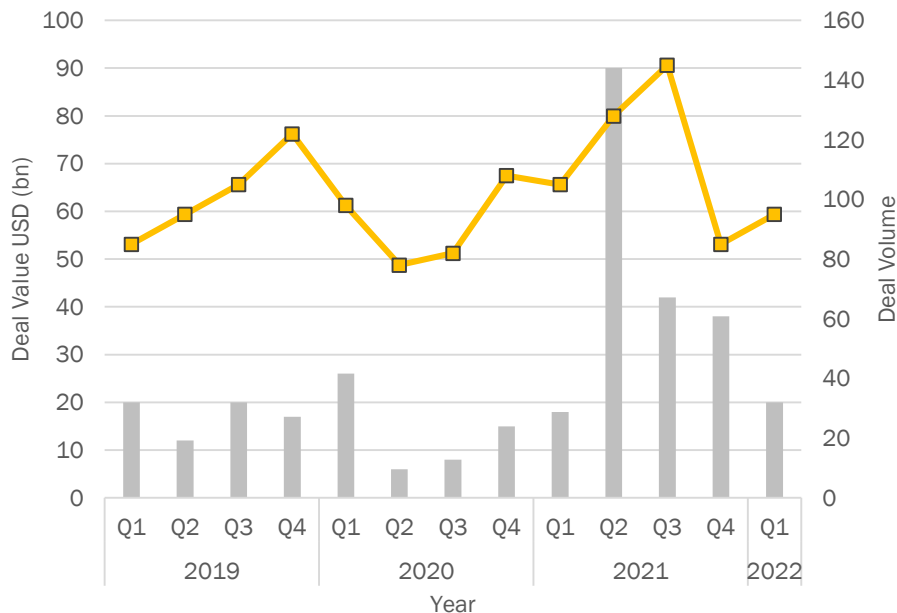
Comparison of scale/activity of SE Asia M&A vs APAC

APAC M&A Deal Volume & Deal Value



Deal Value (LHS) Deal Volume (RHS)

SE Asia M&A Deal Volume & Deal Value



Deal Value (LHS) Deal Volume (RHS)

Source: Mergermarket

ASEAN M&A deal activity

Comparison of active sectors of SE Asia M&A vs APAC

APAC Top Sectors by Value | 2021

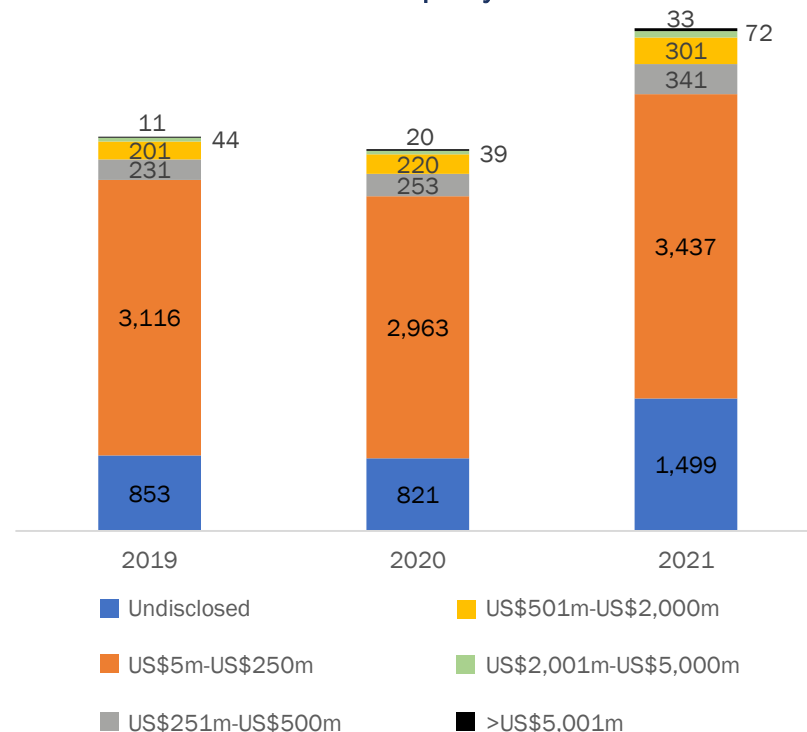
	USD (mm)
TMT	303,582
Energy, mining & utilities	171,321
Construction	159,819
Industrials & chemicals	146,094
Financial services	107,641

APAC Top Sectors by Volume | 2021

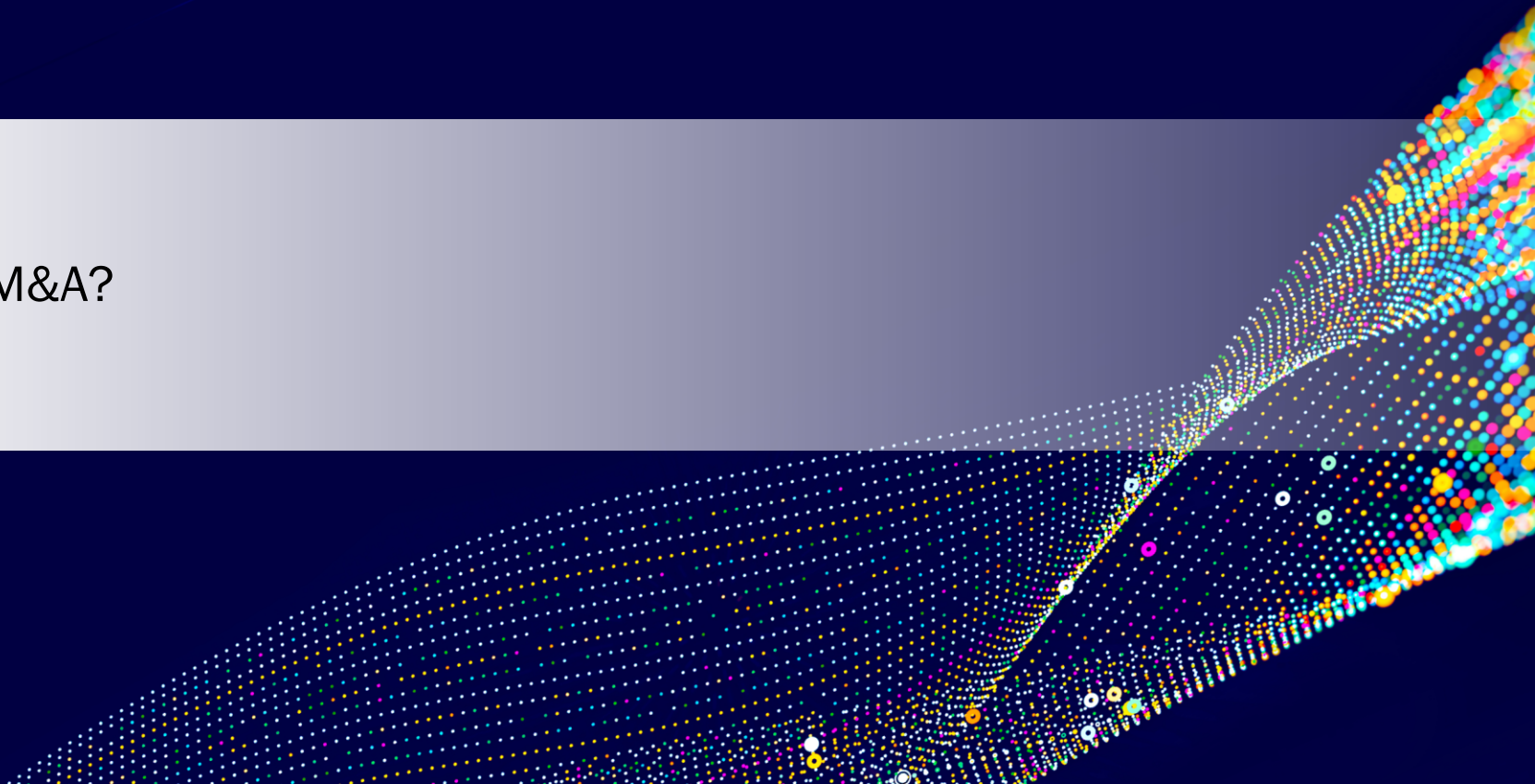
	Deal count
TMT	1,228
Industrials & chemicals	1,088
Business services	547
Energy, mining & utilities	500
Pharma, medical & biotech	482

Source: Mergermarket

APAC M&A Volume Split by Deal Size



Why do M&A?



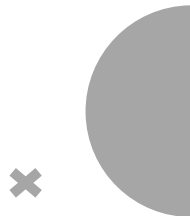
M&A for the wrong reasons



Shiny-object syndrome

- Management is distracted by the newest industry trend, or exciting high-growth start-ups with innovative products, or the array of targets sourced by 3rd parties

"We ended up inventing growth strategies to justify acquiring these exciting targets without a clear understanding of how they could generate value"



FOMO

- 'Fear of missing out'
- Several competitors have made newsworthy acquisitions in the last several months – the board is pushing management to find acquisition targets

"In hindsight, we should have never bought the solar farm like our competitors. Now we're all trapped in these unprofitable concessions."

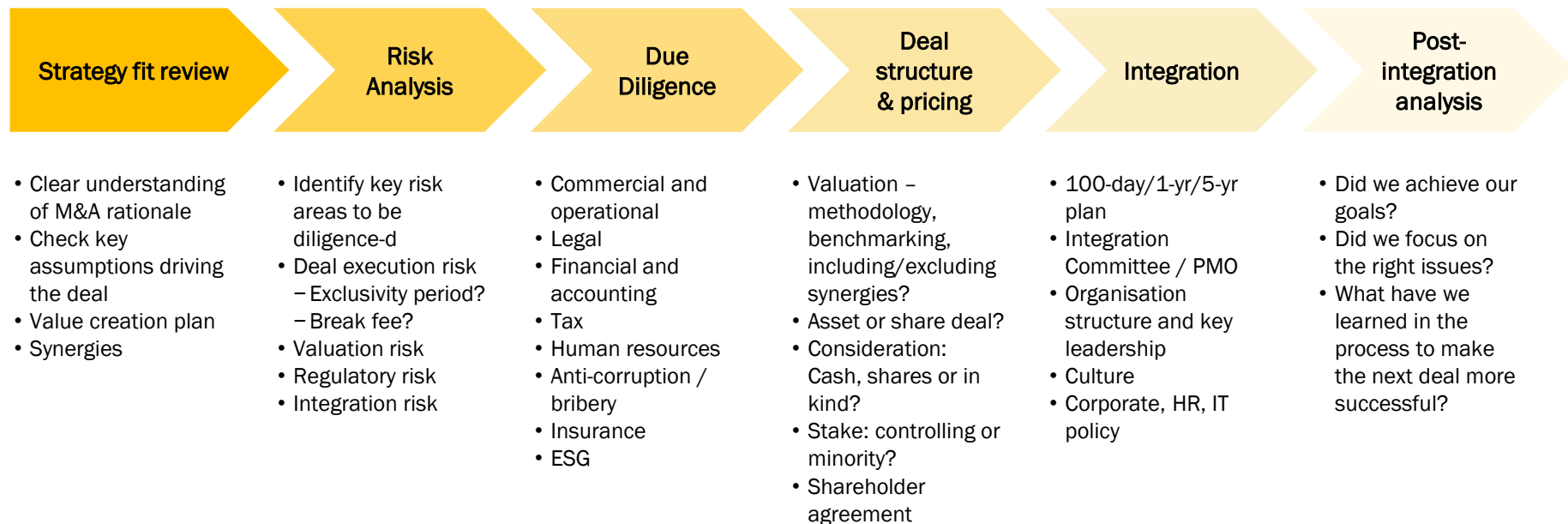


Maslow's hammer

- 'If the only tool you have is a hammer, everything looks like a nail'
- M&A is an instrument for corporate strategy, but it's not the only 'tool' in the box
- Sometimes it's better not to do the deal, and take a different approach instead

"We acquired a few high-growth targets in Asia. Unfortunately, integration took longer than we had hoped, and it would have probably been faster to set up regional bases."

An M&A framework will increase likelihood of success



Strategic fit: Key questions to ask before embarking on M&A



What is our value creation thesis?

- Identify the key value drivers of your business; any M&A should be targeted to enhance these
- What makes our business successful now and what can we add to make it more successful?



How does the target make us better?

- Which of the key value drivers will be strengthened with this acquisition?
- What else does this acquisition add to our business to make it even better in the future?



How can we make the target better?

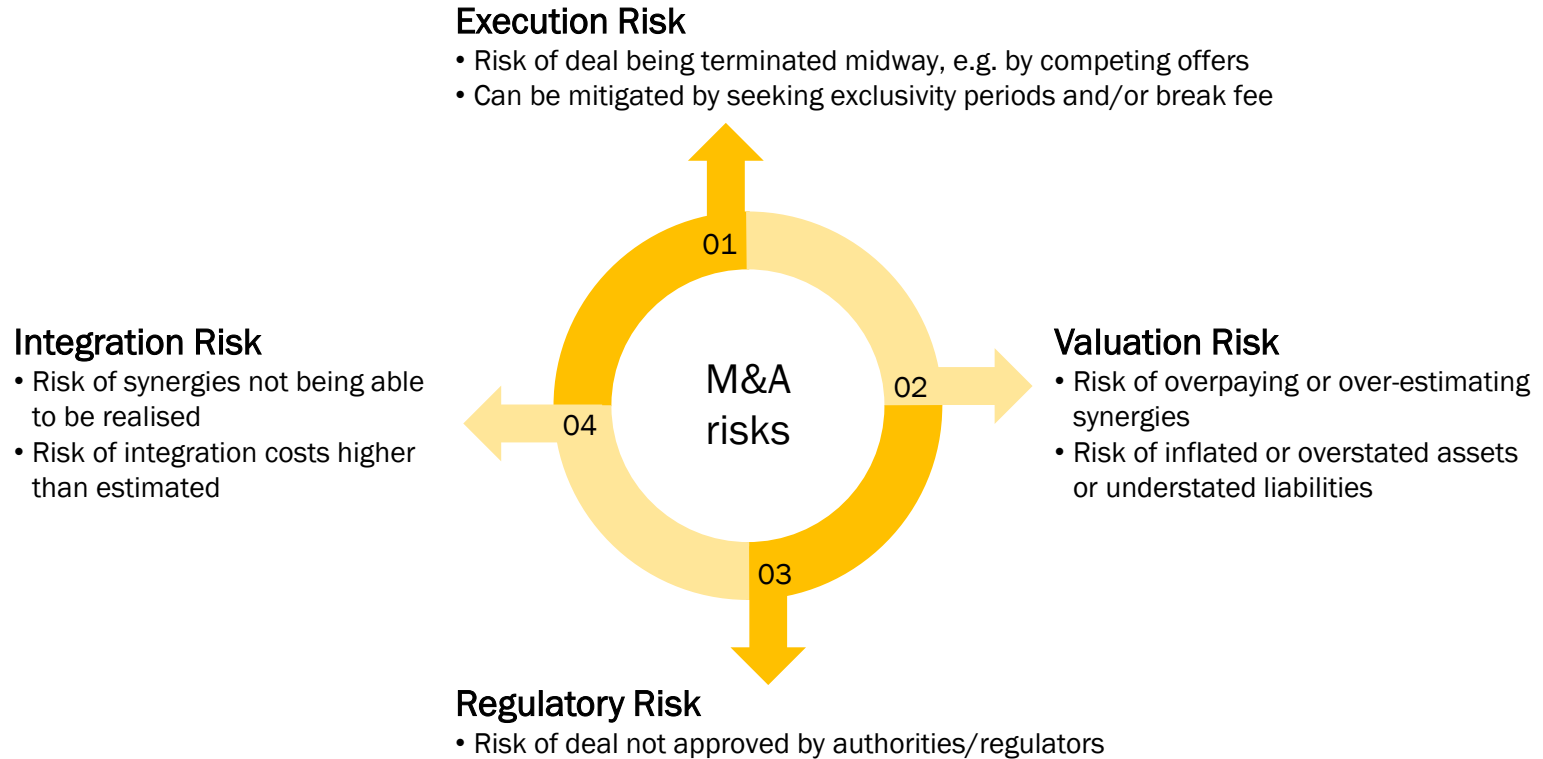
- Identify synergies and develop short and long term action plans to capture them
- What best practices, talent and resources can we bring over to the target?



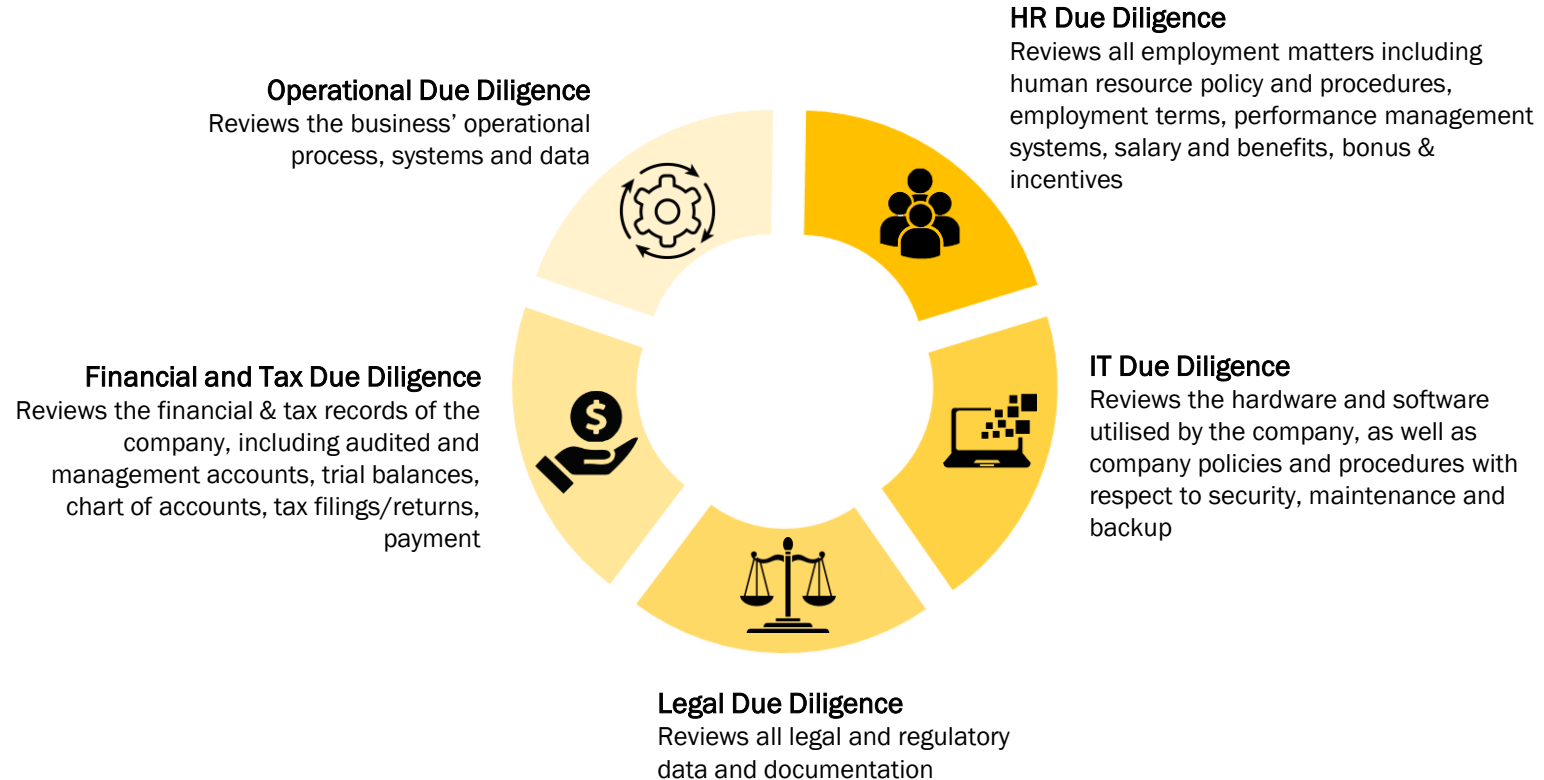
Is it better to build/partner instead of buying?

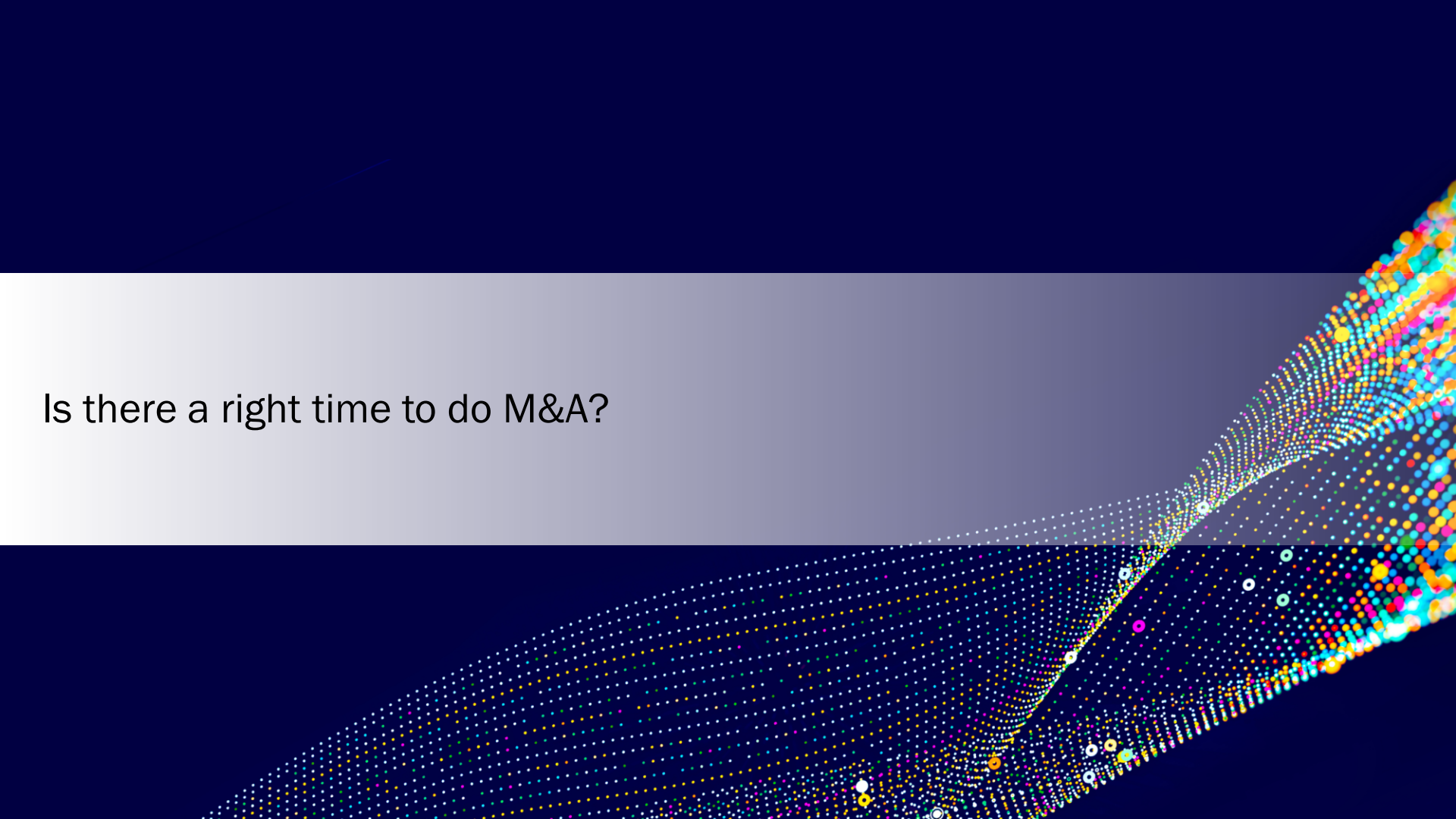
- Consider the stress factors on your business in buying and integrating another company
- It may be better to walk away from a good asset if it's not the right fit

M&A risk analysis



Due Diligence

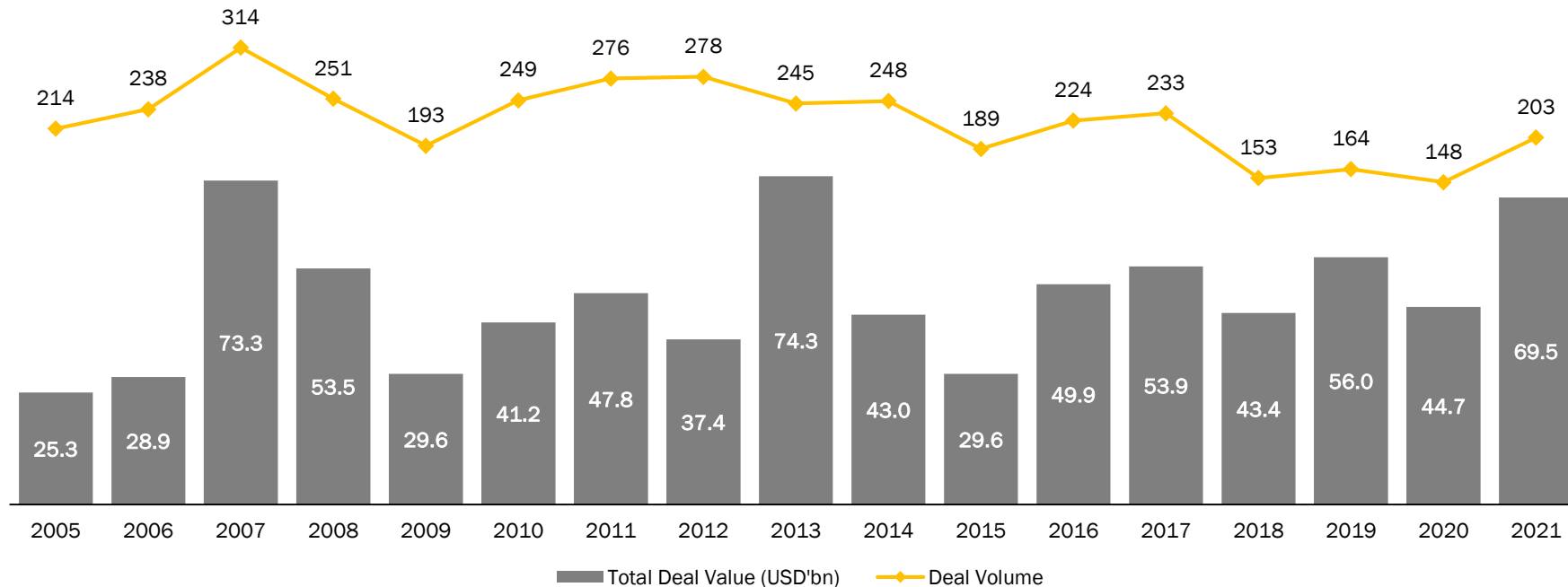




Is there a right time to do M&A?

M&A activity tends to follow the business cycle...

Southeast Asia M&A (2005–2021)



Source: Dealogic

...but M&A can still be done in the worst of times!

J.P. Morgan acquired Bear Sterns

- During the 2008 financial crisis Bear Sterns (“Bear”) suffered a downgrade of its mortgage-backed securities, leading to a liquidity crunch in its repo operations.
- At the request of the US government (with USD30bn financial support), J.P. Morgan agreed to rescue Bear for \$2 a share (which was eventually raised to \$10). Bear’s stock had traded at \$30 a share just a few days prior.
- The deal was completed in less than 3 months.

BofA acquired Merrill Lynch

- Merrill Lynch (ML) had aggressively entered the CDO market in the 2000s and by end 2008 had issued USD138bn CDOs.
- When the subprime crisis hit, the CEO asked Bank of America (BofA) to acquire it.
- Initially BofA balked, but with Federal Reserve financial assistance (and pressure), BofA announced in Sep 2008 the acquisition of ML for USD50bn, about half of its value at the beginning of 2008.
- The deal was completed in less than 4 months.

ICG acquired TF Value Mart

- In March 2019, Mergermarket reported that KV Asia had initiated a sale process for its controlling stake in TF Valuemart, a Malaysian grocery chain operator. However the process was put on hold after receiving unsatisfactory bids.
- In June 2020, at the height of the pandemic, KV Asia revived the process, driven by better performance as lockdown-induced sales grew strongly.
- Due diligence and negotiations were conducted despite the movement controls and ICG completed the acquisition in Nov 2020.

GIC acquired stake in Sunway Healthcare

- The Sunway Group launched a fundraising process for its healthcare group in mid-2020, despite the pandemic and depressed market valuations for healthcare assets due to restrictions on patient visits.
- Notwithstanding this, the process was extremely competitive and included blue-chip private equity funds, pension funds, sovereign wealth funds and conglomerate investors.

Board members should always be prepared to consider a deal

Leverage on directors' industry & transaction experience

- A robust evaluation of a deal requires a good mix of industry and transaction knowledge
- Acquisitions are complex and should be challenged by specialist board members
- Experienced members will be able to advise on key transaction and execution risks

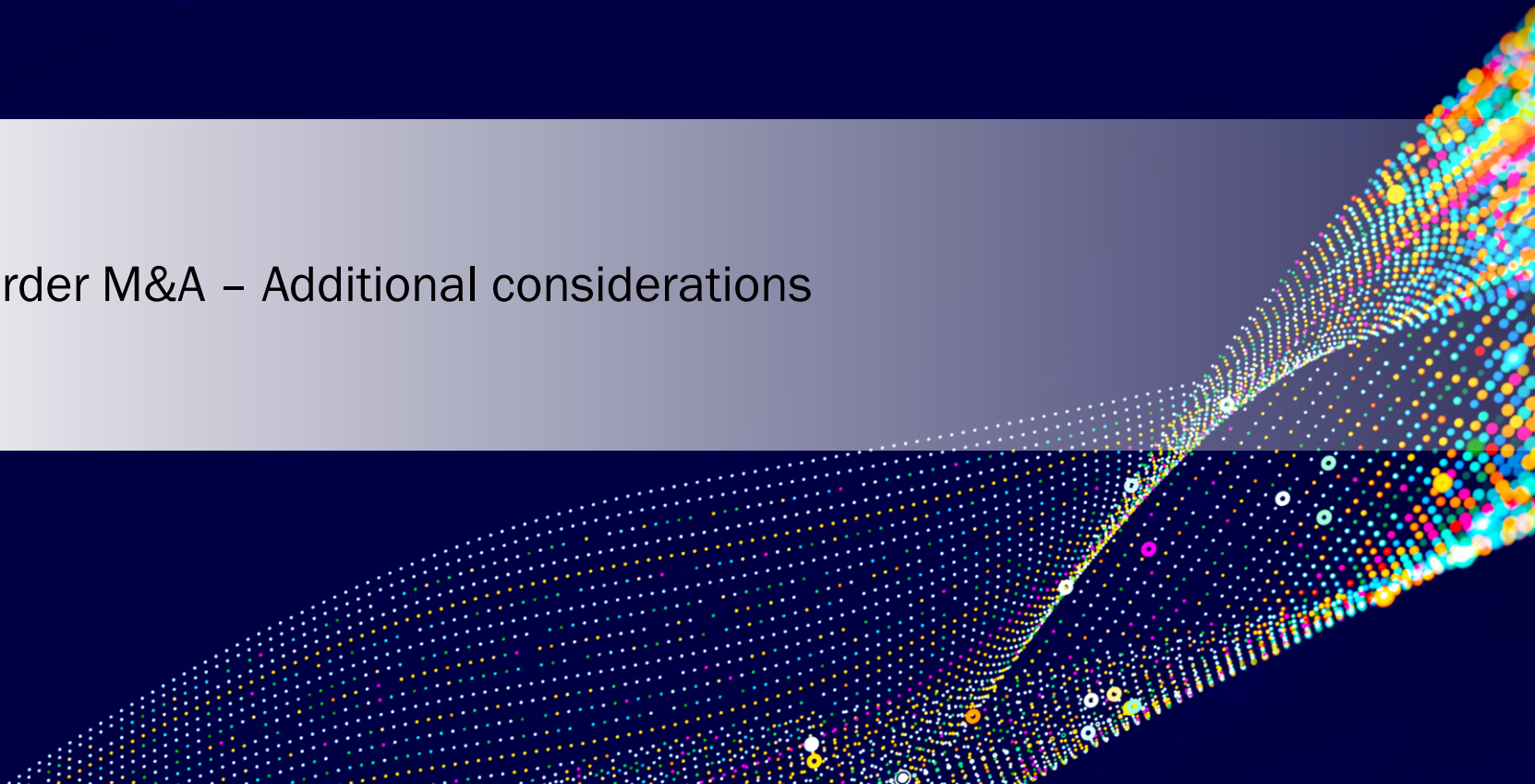
Consider institutionalising the process

- A McKinsey study found that the most effective dealmakers practice programmatic M&A: they regularly seek out moderate-sized deals instead of doing infrequent large deals
- To support this approach, they established clear processes and provide dedicated resources
- But in Asia, only 6% of companies do this, with 49% having less than 5 employees dedicated to M&A

Do a 'dry run'

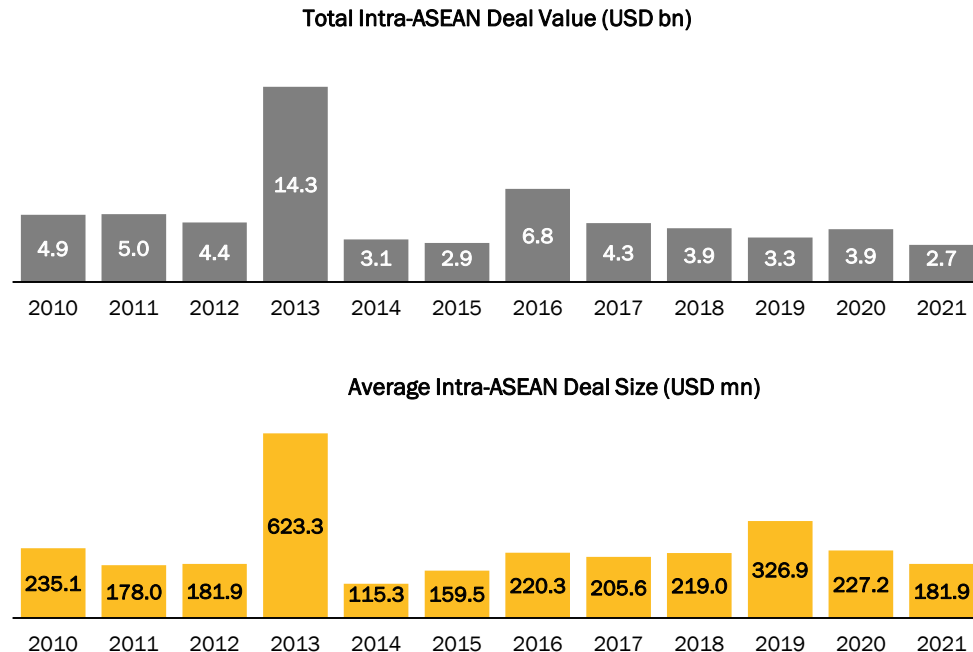
- Boards can 'practice' by setting up a regular review of potential targets (e.g. monthly, quarterly) instead of waiting for targets to be presented by management
- The deal is analysed using the M&A framework and robust discussions are encouraged at the board and with management
- This is akin to an 'investment committee' approach adopted by private equity and asset management firms

Cross-border M&A – Additional considerations



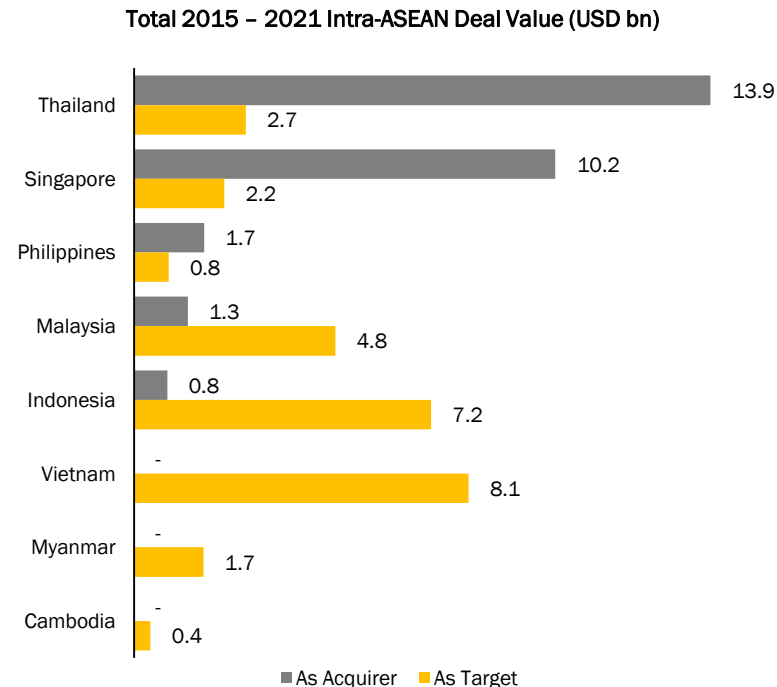
ASEAN Intra-regional M&A – brief overview

ASEAN Intra-regional M&A activity has been fairly stable...



Source: Dealogic

...but some countries appear to be more active than others



Intra-ASEAN M&A harder than it looks – differences can be significant

	Legal System	Restriction on Foreign Ownership	Corporate Governance for Locally Incorporated Co	Tax	Arbitration	Agreements Need to be Executed in Local Language
Vietnam	<ul style="list-style-type: none"> French civil law system 	<ul style="list-style-type: none"> Generally no restrictions except for certain sectors e.g. banking 	<ul style="list-style-type: none"> A joint stock company (JSC) must have at least 3 shareholders The Board of Management (BOM) is responsible for overall management of a JSC 	<ul style="list-style-type: none"> Corporate income tax: 20% Capital gains tax: 20% Withholding tax: 5% 	<ul style="list-style-type: none"> International arbitration is the preferred dispute resolution mechanism by foreign investors 	<ul style="list-style-type: none"> Generally, no requirement for agreements in which either party is a foreign entity to be executed in Vietnamese
Thailand	<ul style="list-style-type: none"> Based primarily on the civil law system but also has influences from common law jurisdictions 	<ul style="list-style-type: none"> Foreign investment is welcomed and in certain sectors, investors are offered tax and non-tax privileges Restriction applies to certain sectors 	<ul style="list-style-type: none"> A private limited company is directly managed by the Board of Directors 	<ul style="list-style-type: none"> Corporate income tax: 20% Capital gains tax: 15% Withholding tax: 10-15% Share transfer tax Property transfer tax 	2 forms: i) In court arbitration ii) Out-of-court arbitration (more common)	<ul style="list-style-type: none"> Generally no local language requirement for private contracts except for documents that need to be filed with authorities
Singapore	<ul style="list-style-type: none"> English common law system 	<ul style="list-style-type: none"> No, but certain regulated industries (e.g. real estate, banking) require prior approval for change in ownership 	<ul style="list-style-type: none"> A company must have, at least 1 director, 1 shareholder and 1 company secretary At least 1 director must be ordinarily resident in Singapore 	<ul style="list-style-type: none"> Corporate income tax: 17% Capital gains tax: None Withholding tax: 15% Share transfer tax Property transfer tax 	<ul style="list-style-type: none"> Yes. There has also been an increased use of Singapore as the seat of arbitration 	<ul style="list-style-type: none"> No language requirement
Indonesia	<ul style="list-style-type: none"> Dutch Civil law system 	<ul style="list-style-type: none"> Yes. Foreign investment is permitted but is subject to a fairly extensive regulatory framework 	<ul style="list-style-type: none"> A company must have at least 2 shareholders, 1 director and 1 commissioner Board of directors have executive power; board of commissioners supervises board of directors 	<ul style="list-style-type: none"> Corporate income tax: 25% Value added tax: 10% Withholding tax: 20% 	<ul style="list-style-type: none"> Yes, it is very common for foreign investors to insist on arbitration in the transaction documents 	<ul style="list-style-type: none"> Yes. Any agreement with an Indonesian person or company must be executed in Bahasa Indonesia
Malaysia	<ul style="list-style-type: none"> English common law system 	<ul style="list-style-type: none"> Malaysian economy is trade-centric and foreign investments are viewed as a crucial element in the country's economic development 	<ul style="list-style-type: none"> A company must have a minimum of 1 director, 1 shareholder and 1 company secretary Where a company has a sole director, he/she must be ordinarily resident in Malaysia 	<ul style="list-style-type: none"> Corporate income tax: 24% Capital gains tax: Not taxable Withholding tax: 10-15% 	<ul style="list-style-type: none"> Yes, commercial arbitration is commonly used as an alternative form of dispute resolution in Malaysia 	<ul style="list-style-type: none"> No language requirement

Cross-border M&A – key risks to consider

A 2017 Deloitte survey of 500 executives across various sectors and geographies identified the top 5 risks that respondents were concerned about in cross-border deals:

Tax

- Governments around the world are applying more aggressive tax laws to increase corporate tax collection
- Financial information is being exchanged across borders to help tax authorities boost enforcement and ensure global tax cooperation

Regulatory

- A lack of regulatory certainty and strict regulatory barriers may discourage transactions
- Foreign ownership restrictions are a common stumbling block, especially for industries with strategic national importance

Political Stability

- Where the government and/or leadership is unstable, questions can arise around policy continuity and clarity
- Protectionism and trade/non-trade barriers also appears to be on the rise
- Bribery & corruption can be a significant risk in some geographies

Culture

- As well as language and religious differences, company culture is affected by different heritages
- Combining culture and talent across borders is a complex exercise but needs to be executed well to make the deal successful

Business Risk

- While ostensibly from the same industry, there may be significant differences in the target geography's market structure, competitive landscape, consumer preferences and supply chain capabilities
- Forex risk is also an additional factor not usually considered in the acquirer's business

Summary

- ✓ Strategic rationale for deal is key
- ✓ Having an M&A framework will bring rigour to the process
- ✓ A good mix of experience at board ensures a robust discussion of the deal
- ✓ Consider institutionalising the M&A process and having regular evaluations
- ✓ Cross-border M&A adds several layers of complexity



Thank you

An abstract graphic on the right side of the slide, featuring a dark blue background with a series of colorful dots (white, yellow, orange, red, pink, purple, blue, green) arranged in a wavy, flowing pattern that extends from the bottom right towards the center.