FEATURE

Mergers & Acquisitions in Kenya

With more than 20 years' experience in financial advisory, Sheel Gill, Director, Deal Advisory, KPMG Kenya, talks about the state of Kenya's mergers and acquisitions market, how it compares to working in the UK, and why due diligence and good chemistry are vital for a successful deal

By Sheel Gill
Director, Deal Advisory

What are mergers and acquisitions (M&A) and what are the key trends that we should watch for in the Kenyan market?

M&A essentially involves an equity transaction between companies; mergers involve the combination of two or more companies to form a single entity, while acquisitions involve the purchase of an equity stake in a company, be it minority or majority, by another. In this context, the cardinal equation follows that one plus one is greater than two, the rationale being the advantages of pulling together will lead to value creation for all stakeholders.

Some of the trends in the M&A market in Kenya suggest that deal volumes in the financial services sector have shown high growth in recent years, whereas sectors such as manufacturing, tourism and healthcare have not seen significant deal activity. Noteworthy is the banking and insurance sectors in Kenya, which are likely to witness significant deal activity in the near future due to the revised regulatory capital requirements.

Other trends to watch for include exits by private equity firms and growth in the finance-related technology services sector to increase Kenya's banked population.

What is the current state of the M&A market in Kenya, particularly in relation to the middle market?

Kenya is the regional leader in the East African M&A market. It is the preferred entry point for companies wishing to expand further in the region due to its strategic geographical location, well established private sector, favourable government incentives, developed infrastructure and robust human capital. This is expected to remain the case over the medium term. According to KPMG's Deal Space (July 2014), Kenya has led the East African transaction space with over 134 deals disclosed since 2010.

The financial services sector has witnessed the largest increase in deal activity, from a mere two deals in 2010 to 18 deals in 2013. In 2014, there were seven deals in the insurance sector only, for example, Swiss Re's minority acquisition in Apollo Insurance.

However, these deals have largely been the preserve of larger corporations, with mid-market companies lagging behind. Many SMEs remain sub-scale and thus fall below the minimum equity investments of investors. Therefore, debt is the default option. Some 63% of the participants that took part in the 2014 KPMG Kenya Top 100 Survey cited bank loans as their preferred source of expansion capital. However, we are witnessing increased awareness of the benefits of equity investors among SMEs after the successful conclusion of transactions such as the Interconsumer-L'Oreal deal in 2013 and the Tiger Brands-Haco Industries deal in 2008.

What has been the largest acquisition you have been involved with in Kenya? What was unique about this transaction?

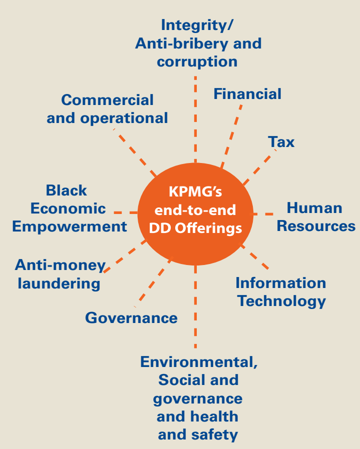
The largest transaction was Norfund's minority acquisition in Equity Group. This was a very sensitive transaction, which had been under discussion for more than two years, with both parties critical to arrive at a successful conclusion. This meant that I had to lead my team to deliver the highest quality of service so as to facilitate the seamless conclusion of the transaction.

How important is due diligence to smoothing the M&A transaction process? What due diligence services do you offer to buyers and vendors?

Due diligence (DD) is a critical part of the M&A process. It helps to identify potential issues earlier rather than discovering them later. This allows the buyer and seller to address the risks appropriately.

Typically, what stops a deal from going through?

The main issue that stalls a deal is lack of chemistry between the parties. This, along with a difference in opinion on valuations, have been seen to impact deal closure.



What advice would you give to Kenyan companies looking to take part in M&A transactions?

M&A is all about creating value. Before taking part in such a transaction, you should think of upsides for all parties. Look for synergies, that is one plus one is greater than two, growth opportunities, increased market power, acquiring technical capabilities, improve governance amongst others. In addition to this, companies should always ensure that they have competent and experienced M&A advisors holding their hands through the process to ensure that there is no value leakage.

You qualified as a UK Chartered Accountant in 1996. What are the main differences between advising on M&A in the UK and in Kenya? What present the biggest challenges?

I started off my career at Pricewaterhouse Kenya in the Audit department where I worked for three years before proceeding to the UK in a similar capacity for an additional three years.

After six years in Audit, and seeing the start of M&A industry, I was ready for a new challenge and the idea of doing transactions sparked a new excitement in my life. I therefore moved to KPMG's Deal Advisory unit. Having spent 14 years in UK and Germany, I felt it was time to return home in January 2012.

A key difference I note between the UK and Kenya is the lack of information and transparency on issues. this often leads to time lags in closing deals and misinformation which creates unnecessary apprehension for both buyer and seller. I strongly advise Kenyan companies to be transparent and honest, after all i-Tax is here!

East Africa M&A Deal Volume by Sector

Source: Bloomberg, Reuters, NKC

About the Author

Sheel Gill is a Director in Deal Advisory at KPMG Kenya. Her career has spanned more than 20 years, and has included working for Pricewaterhouse and KPMG in both the UK, Germany and Kenya. Some of her key clients include CVC, 3i, Royal Bank of Scotland, Goldman Sachs PIA, BP, Smithkline Beecham, Young & Rubicam, National Power among others. In Kenya, she has worked with clients such as Norfund, Amethis, CDC, Emerging Capital Partners, Privatization Commission, East African Development Bank, Barclays/Absa and SwissRe. In her current role at KPMG Kenya she offers a wide range of services, including buy- and sell-side advisory, financial modelling, business valuation and market entry services.