



# Audit committee Forum No.51

## Mergers and Acquisitions (M&A): Risks and opportunities

Date : 14 March 2023

Time : 14:00 to 15:00





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Mergers and Acquisitions  
(M&A): Risks and  
opportunities**

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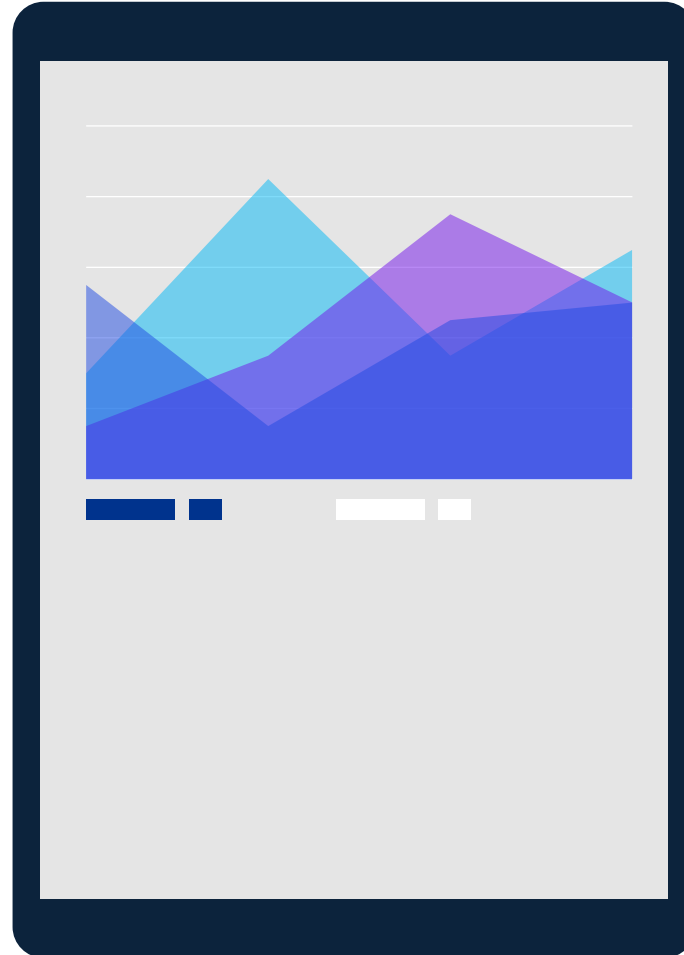
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# Deal and deal making have become more complex

## Business becomes more complex

- Traditional markets and business models have been disrupted
- Customer behavior continues to shift
- Lines between industries are blurring
- Competitors are emerging from unexpected directions



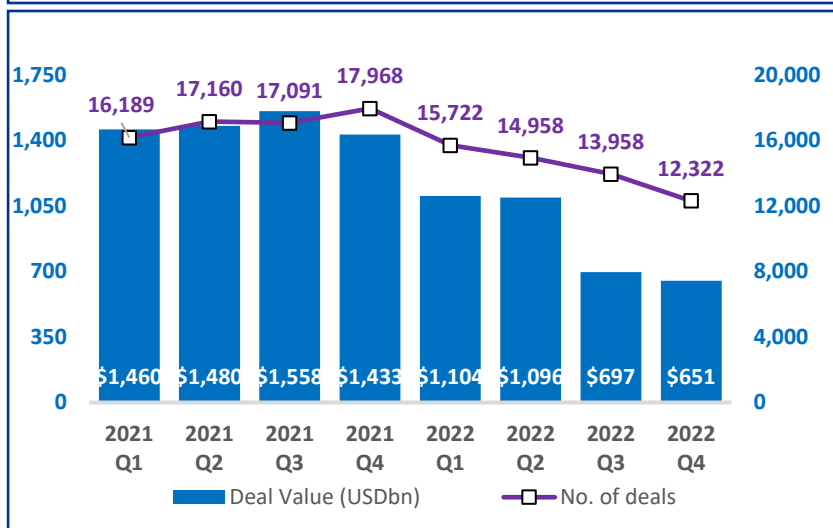
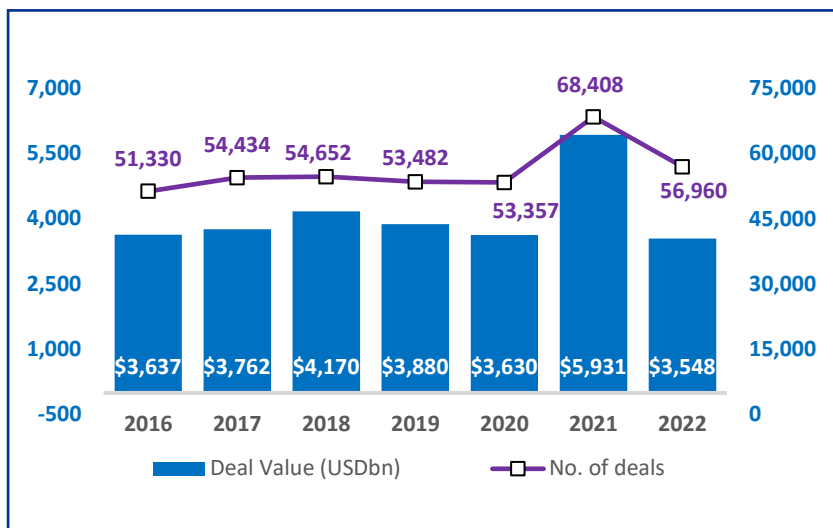
## M&A as a key strategy

- New technology
- Business diversification
- Streamlining group structure
- Disposing non-core business

## Learning from new risks

- Pandemic
- Russia vs Ukraine war
- US-China trade war
- Fluctuated valuation

# Global M&A Activity

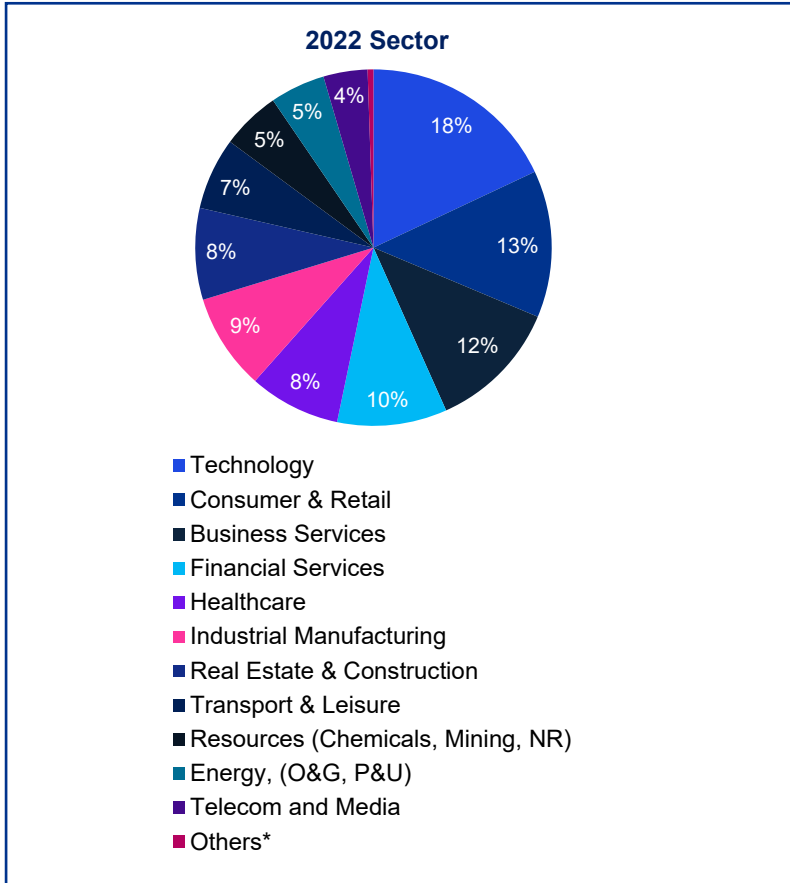


- The global value and volume of M&A in 2022 saw a downfall but remained above pre-pandemic levels as debt financing markets collapsed and stock market volatility decimated valuations, with dealmakers predicting a slow path to recovery in 2023.
- During 2022, deal volume has been decreased by 17 percent from 68,408 deals in 2021 to 56,960 deals in 2022.
- Total deal value for 1Q-4Q22 reached USD 3.5tn, ~40 percent decrease from an all-time high of 2021 levels.
- Despite the headwinds, 2023 is expected to be resilient and buyer's market with corporates driving M&A activity to transform enterprises. There is plenty of opportunities as market multiples soften.

Source: Refinitiv as of January 15, 2023; KPMG analysis



# Sectors contribution in M&A



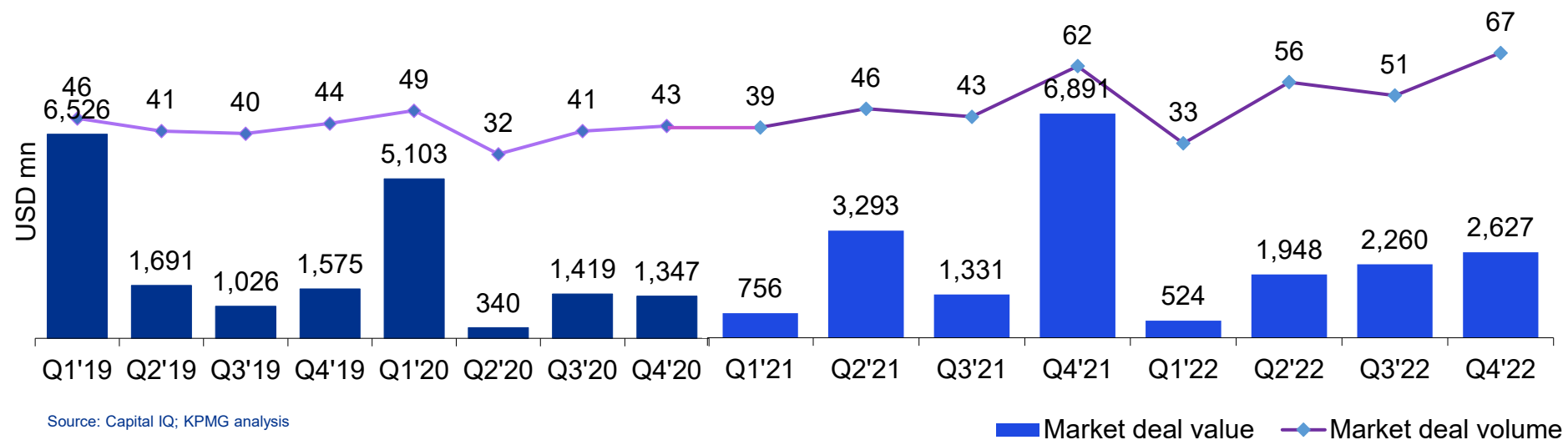
- From health-tech to telecoms, the recession and bearish markets affected all the sectors.
- The technology, media, and telecom (TMT) sector continued to dominate activity, both in terms of value and volume, accounted for 18% of global deal volume (10,255 deals) during 2022 with deal value USD\$735.55 billion.
- Consumers holds second place, with 13% of total deal volume. This is followed by the business services (12%), financial services (10%), healthcare (8%), energy and other sectors.
- Market remains motivated and the major players to expected to continue optimizing their portfolios, using M&A to pivot to adjacent markets and scale up to meet rising sectorial demands. We expect M&A in 2023 to be driven primarily by personalization and environmental sustainability.

Source: Refinitiv as of January 15, 2023; KPMG analysis



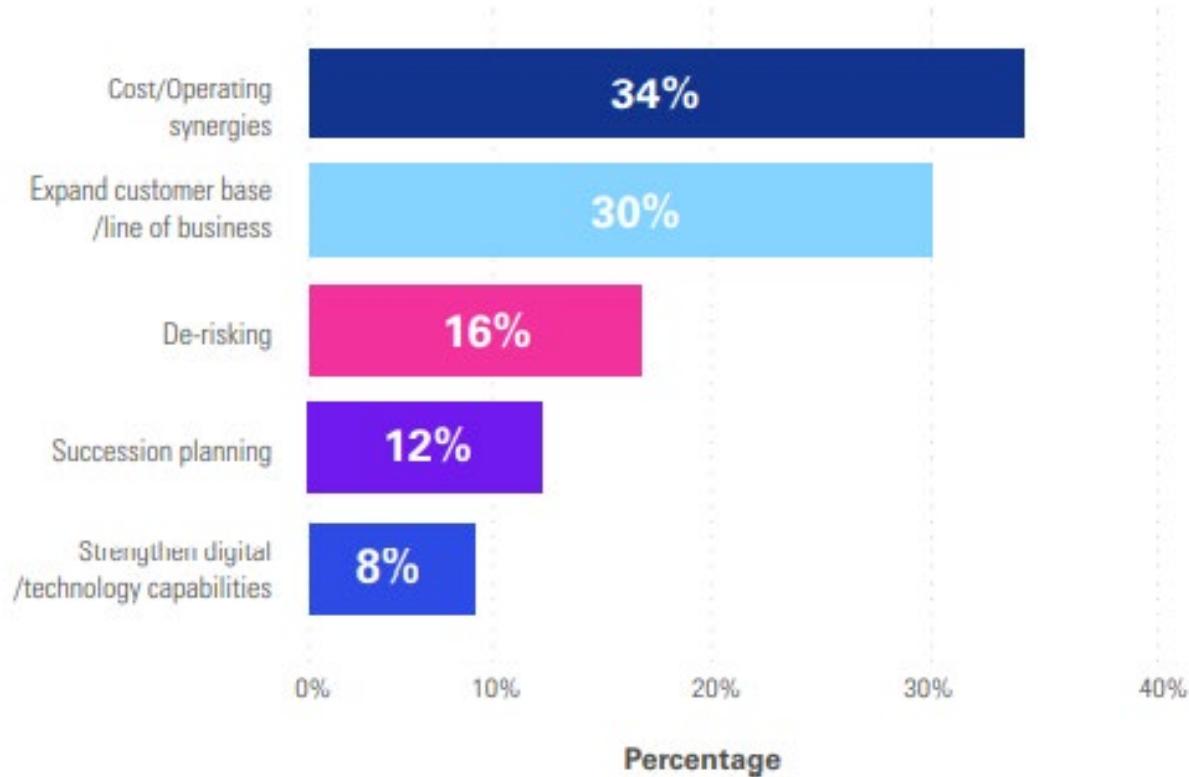
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# M&A trend in Thailand



- M&A activity in 2022 grew at a relatively stable level compared to 2021 in terms of deal volume; however, deal value was significantly less as fewer mega-deals occurred.
- Looking ahead, a potentially low-growth environment globally in 2023 may boost the Thai M&A landscape as firms are expected to seek inorganic growth through acquisitions. Ongoing supply chain relocation into Southeast Asia also presents an opportunity for the economy. Amidst global macroeconomic uncertainties, Thai businesses are expected to seek capital whether from equity, debt or refinancing during 2023, as covid-related government and banking support comes to an end. This potential pressure on business owners may lead to a narrowing in the 'valuation gap' which investors have cited as an obstacle to deal-making during 2021 to 2022. In addition, the divestment of non-core assets to streamline portfolios as well as consolidation within industry segments to strengthen market positions are expected to be M&A themes in Thailand going forward.

# M&A Drivers



- Traditionally, companies do transaction primarily to leverage inorganic growth; expanding their customer base, products and service.
- With pressure from economic recession, the key driver has shifted toward navigating operational synergies to improve cost efficiency.



# Why shareholders would sell?



## Divestment rationale



Retirement of owner manager



End of life for closed ended PE fund



Change in business cycle



Change in regulatory environment.

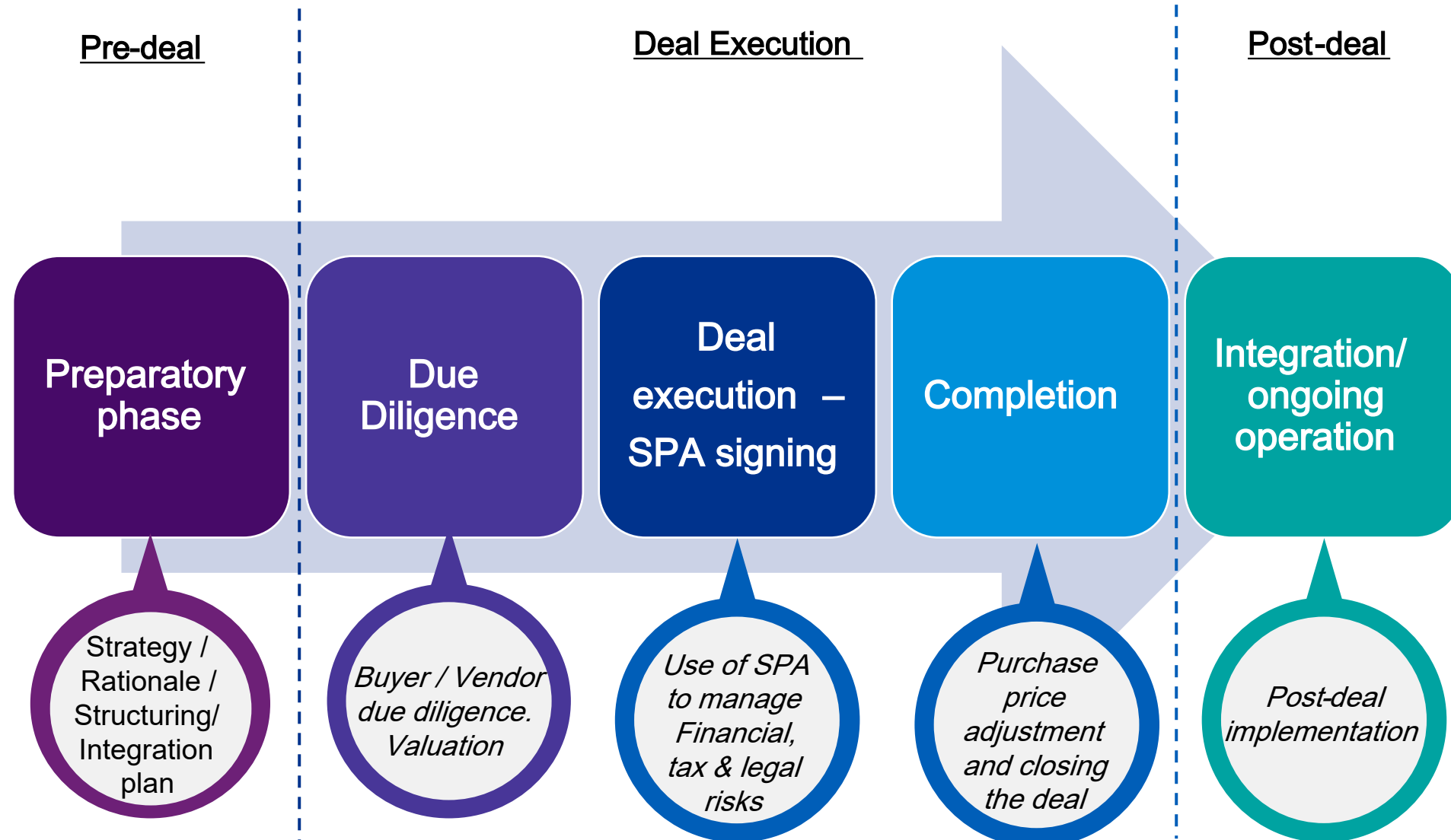


Trigger events in shareholder agreements



Need for recapitalization

# M&A Process



# Before entering into a transaction



What is the role of M&A in our strategy?

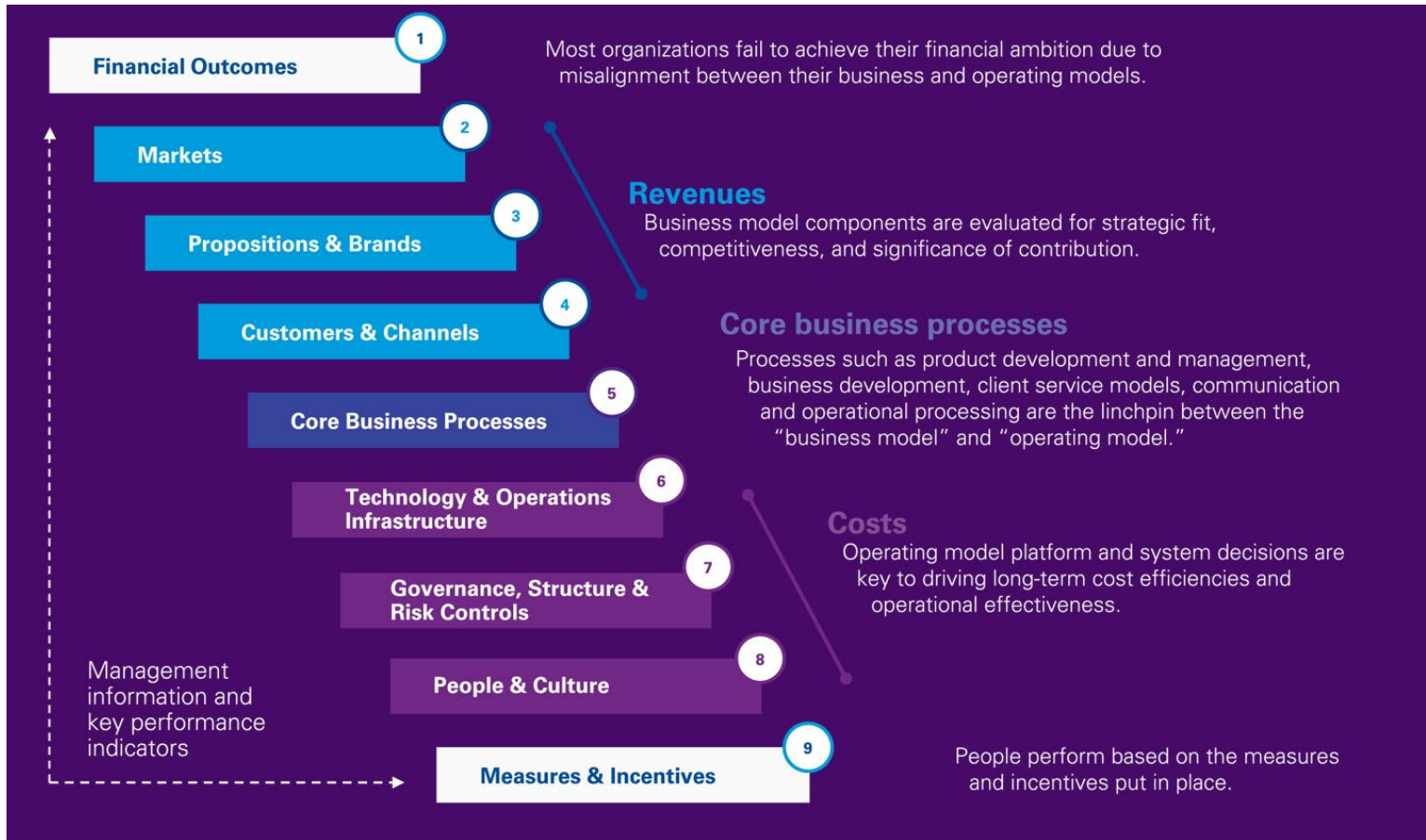
How do I allocate my capital efficiently?

Who are my priority targets?

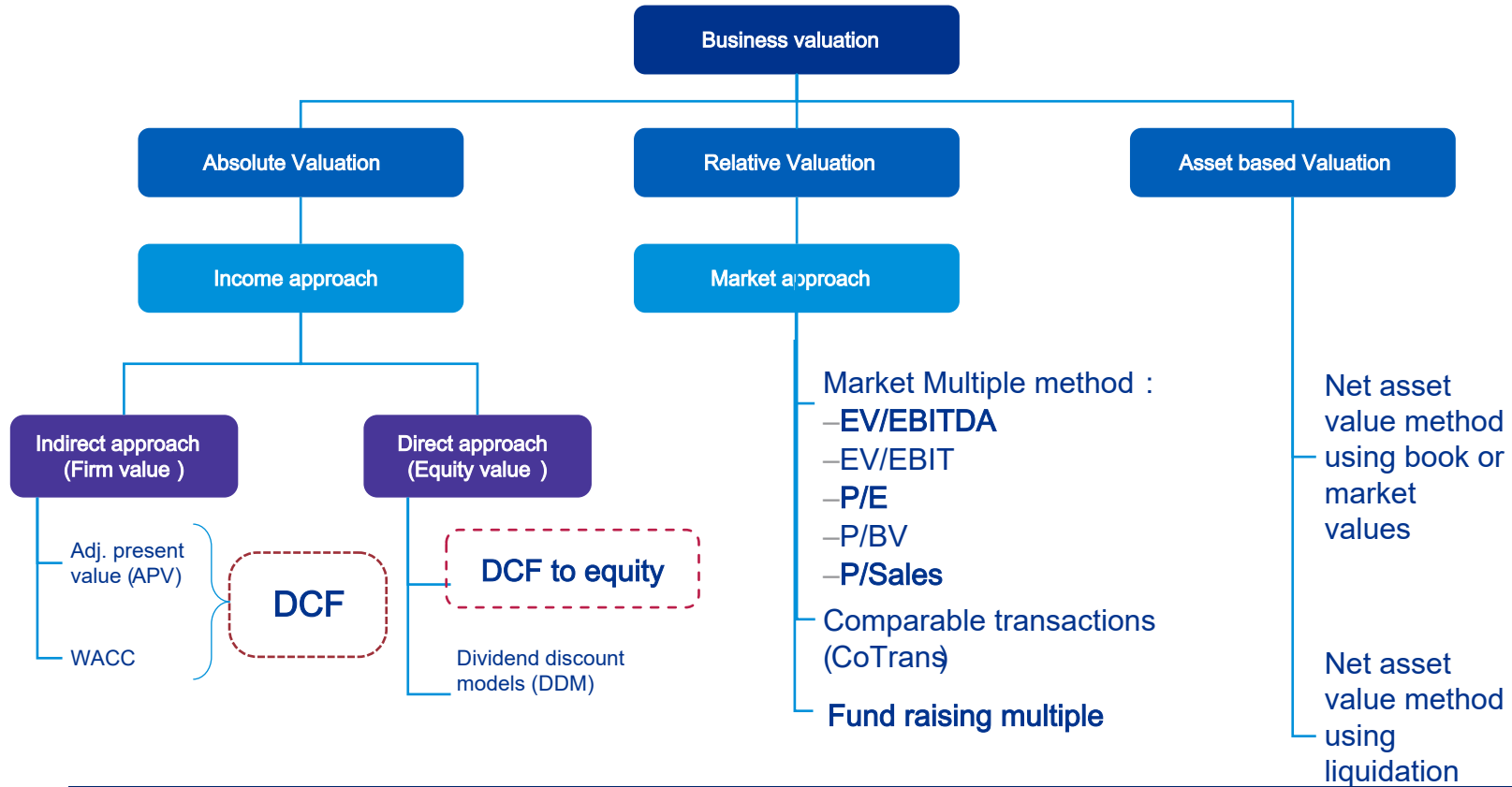
What is target's appetite for a transaction?

What is my approach?

# 9 Levers of Value



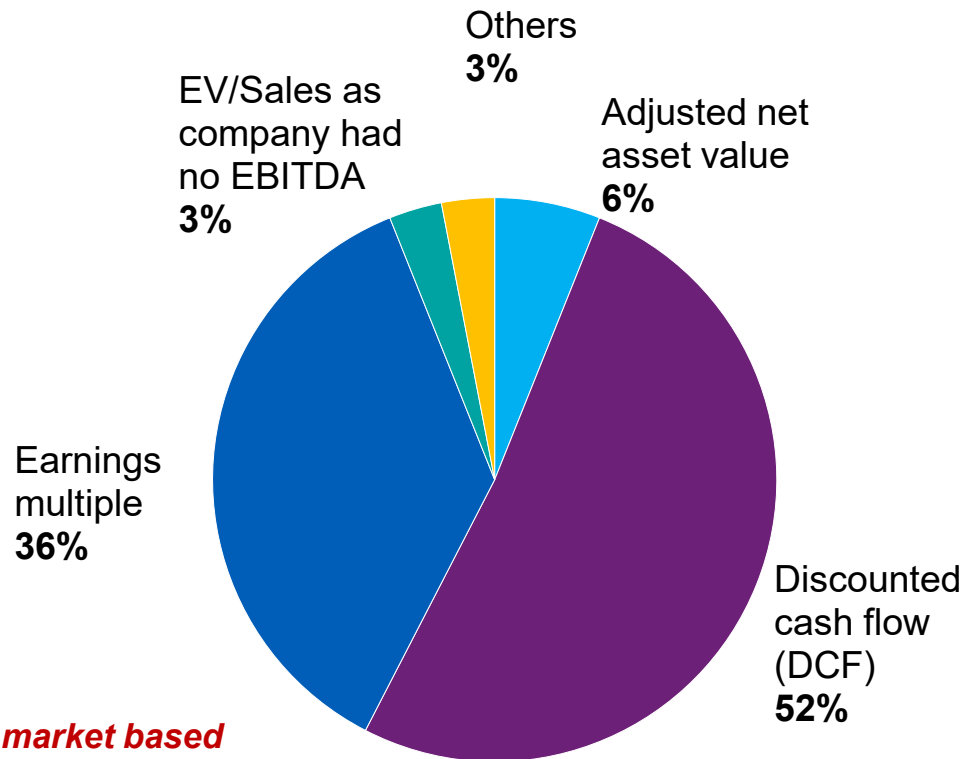
# Valuation approaches



Choosing the appropriate approach depends on specific circumstance

<i>Nature of business</i>	<i>Availability of financial data</i>
<i>Availability of data for comparable companies</i>	<i>Current condition and future business plans</i>

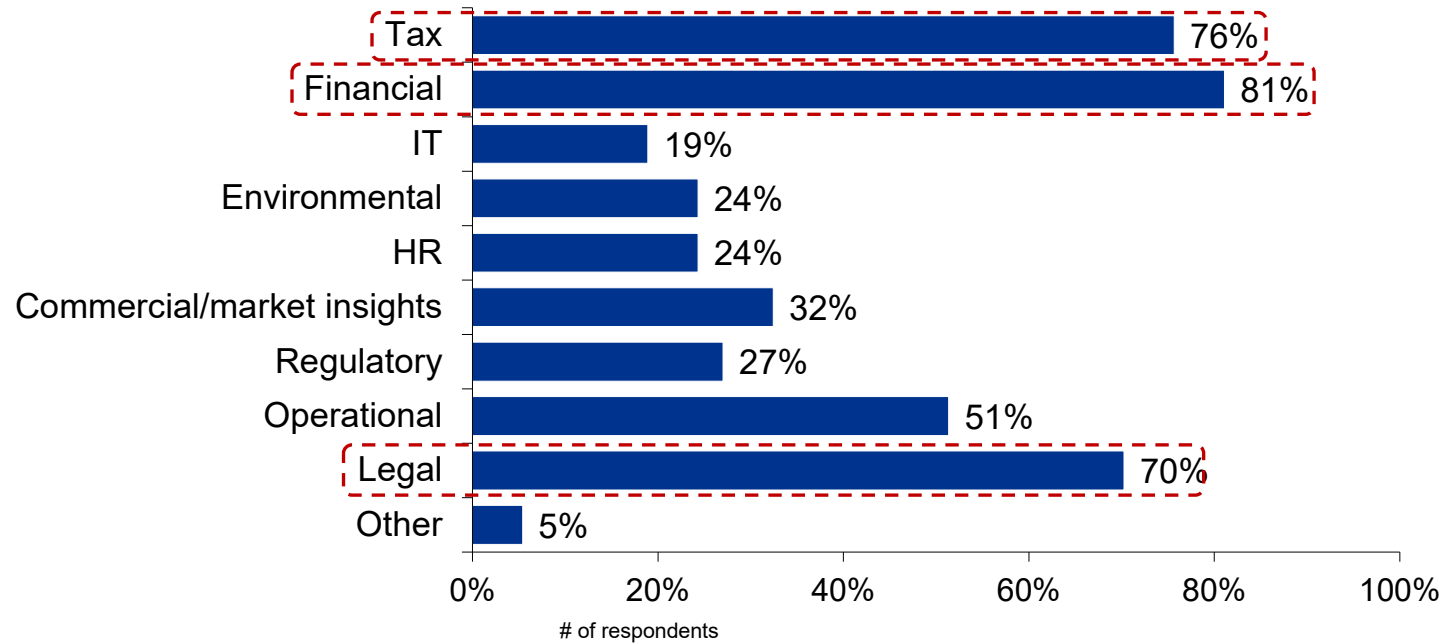
# Valuation approach from the survey



***“Earnings and market based approaches are widely used as a basis for valuation”***

- Deal makers consider both DCF and market multiples to determine the proposed price
- Scenario and sensitivity analyses shall be performed when applying DCF approach
- The trend of price multiples over period of time shall be observed to determine the right multipliers
- QoE (sustainable level of earnings) should be considered instead of reported earnings
- Earnouts mechanism could help to bridge valuation gap between buyer and seller

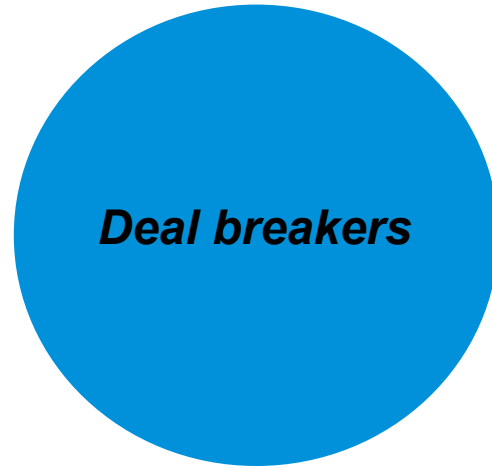
# What types of due diligence are normally performed



Note: Some respondents selected more than one option.

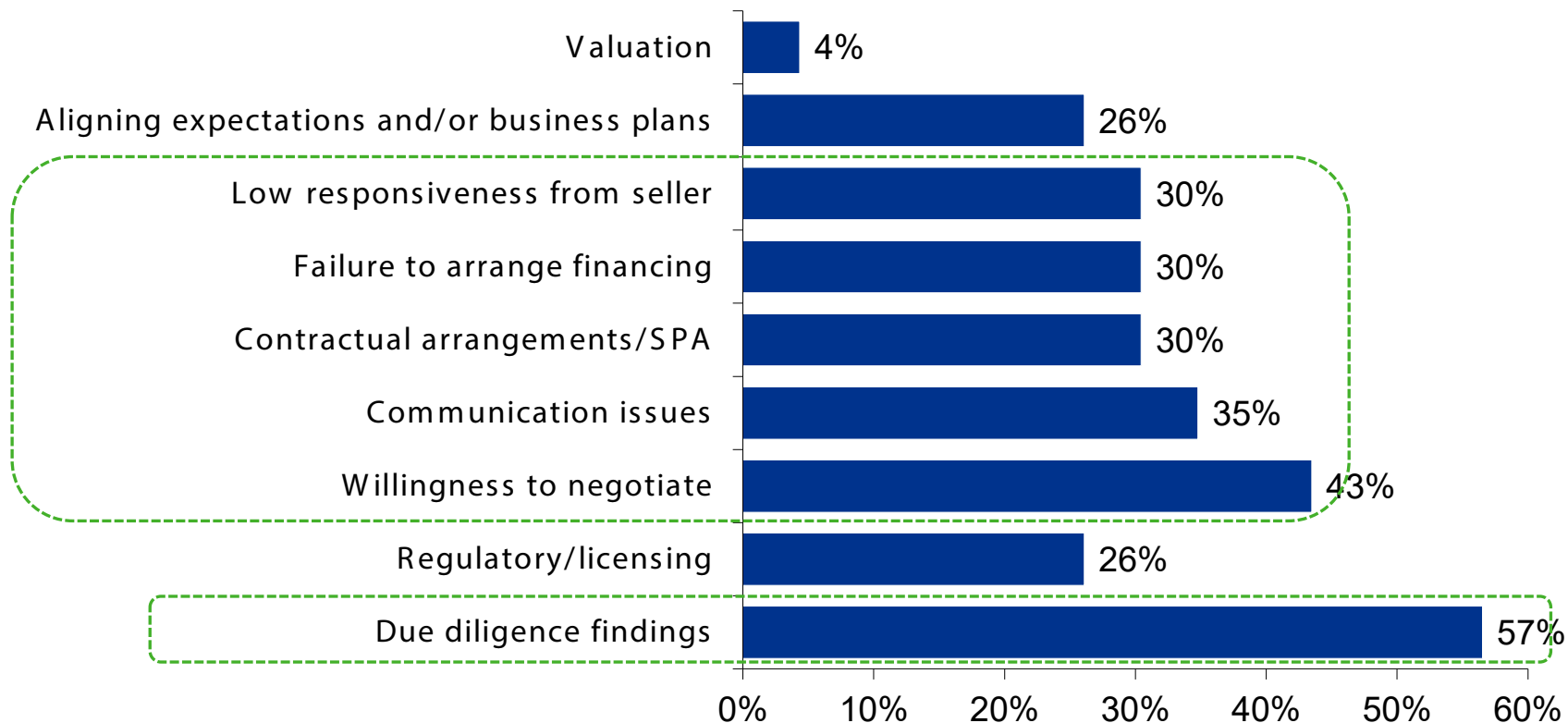
**“A Robust due diligence is key to corroborating the investment thesis, valuation inputs and focus areas for the post-deal integration plan”**

# Focus of Due diligence





# Key factors impacting transaction closure



# Key focus areas

## Roles & Responsibilities



## With M&A focus



# Top 10 questions

1. What have you done to substantiate synergy cases ? Is the perception of strategic fit based on historical business achievement or merely on unproven and predominantly future expectations ?
2. Is there a well-thought out and robust due diligence and post-merger integration framework in place, as well as qualified 'subject matter experts' to advise management throughout the entire M&A process ? What due diligence types will be carried out and are they sufficient ?
3. Who has the ultimate responsibility for the due diligence, and post-acquisition integration planning and implementation ?
4. Do our own teams tasked with due diligence and integration have the skills, experience, resources and time to conduct their work? Have you determined whether we 3rd party advisor assistance or integration planning?
5. How accurate is their financial information ?, What work have you done to substantiate the quality of financial reporting and robustness of internal control and processes of Target Company ?, What are the impacts to our financial statements ?

It is important that Audit committee gets involved in the discussion on potential deals as early as possible

# Top 10 questions

6. What are key risks identified by due diligence advisors, and how can we protect our Company from these risks ?
7. Have you looked at the Target company's key relationships, as well as the security of those relationships ?
8. What initiatives and programs are in place to retain key personnel ?
9. Have we considered post-merger integration issues ? What does Management see as the most significant integration challenges ? (Accounting, IT, culture, people, etc..)
10. How will this deal affect wider stakeholders, such as our employees, customers, suppliers, regulatory bodies, shareholders ?



# Q&A

Please provide your feedback.

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| Mergers and Acquisitions  
(M&A) Risks and opportunities





**Thank you**



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