

Trends in mergers and acquisitions in Botswana

Globally, transactions slowed down dramatically in Q2-Q3 2020, with management of most businesses getting consumed with weathering the immediate crisis while trillions of committed capital waited for the dust to settle. Subsequently, deals are soaring as distressed companies look for exit strategies and investors look for a market correction. In some industries, companies may exit the pandemic healthier, attracting a new round of interested investors.

Given these M&A expectations and trends globally, how does the local landscape look and what do the trends indicate?

Grant Thornton provides analysis and insights about emerging local trends that are based on deals announced and published by the Competition and Consumer Authority of Botswana (CCA) between 2017 and Q1 2021. In the event of a cross-border deal, the database only covers in-bound transactions. It excludes M&A deals completed in Botswana where:

- Turnover of the enterprise or enterprises in Botswana being taken over < BWP 10 million,
- Assets of the enterprise or enterprises in Botswana being taken over < BWP 10 million, or
- Following implementation of the merger, the enterprises concerned would supply or acquire at least 20% of the market for a particular product or service in Botswana.



Number of M&A deals

The total number of M&A deals that take place each year in Botswana is cyclical in nature, with a positive growth rate registered every other year, and a negative growth rate the following year. In line with the trend seen globally, the COVID-19 pandemic led to minimal activity in Botswana during the second and third quarters of 2020. Typically, Q1 and Q4 experience a higher level of activity in our M&A market. However, 2020 was an exception due to the impact of COVID-19 pandemic.

Since Q4 2020, there has been strong recovery of the local M&A market with activity levels rebounding to the average number of deals per quarter during 2019. This trend continued in Q1 2021, which saw M&A activity return to the highs of pre-pandemic levels when M&A deals in Botswana averaged 12-13 per quarter (2019). Many businesses have had deals waiting in the pipeline as well as potential acquirers discovering new opportunities post-pandemic.

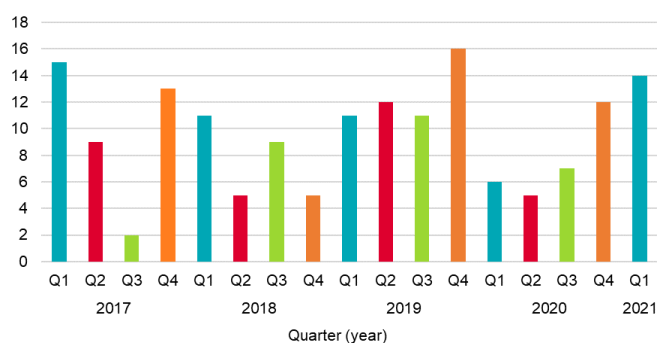


Chart 1: Number of M&A deals
(Source: Competition and Consumer Authority)

Domestic deals versus cross-border deals

In 2017-2018, a large portion (close to 60%) of deals were cross-border deals. This trend has changed since 2019, and a larger portion (close to 63%) are now domestic deals. This indicates that the appetite for M&A activity amongst locally registered businesses in Botswana is increasing. Majority of the current cross-border deals involve South African investors and are driven by a strategic aspect to the deals.

We expect cross-border deals to increase in the future, especially with African countries, due to the African Continental Free Trade Area (AfCFTA) which is likely to enhance Pan-African trade and in turn M&A activity with fellow African countries.

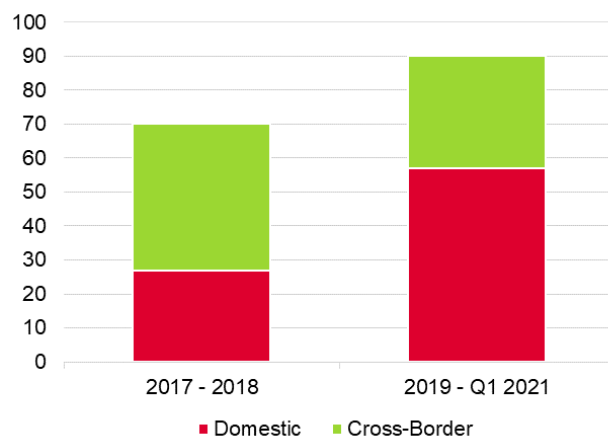


Chart 2: Domestic deals versus cross-border deals
(Source: Competition and Consumer Authority)

Share deals versus asset deals

Till 2018, majority (close to 80%) of all M&A deals were share deals. However, since 2019, asset deals have averaged 36% of total deals announced. Within share deals, a large portion are majority stake acquisitions. In most instances, deals involve strategic or financial investors buying out full stake in the target companies.



Chart 3: Share deals versus asset deals
(Source: Competition and Consumer Authority)

M&A deals by sector

The data shows that the real estate, financial services, tourism and hospitality, and consumer sectors experience the highest level of M&A activity.

Real estate

The real estate industry experienced strong M&A activity in 2018-20 accounting for >20% of deals announced. It is expected that the change in transfer duty from 5% to 30% of value of property in the case where the buyer is a non-citizen of Botswana, or not a 100% citizen-owned company, to negatively impact in-bound deals in this sector going forward.

Financial services

During 2019-20, the financial services industry contributed >10% of M&A deals in our market. Majority

of such deals happened in the insurance sub-sector, which reflects the positive outlook and opportunities within Botswana's insurance industry.

Tourism and hospitality

In 2018 and 2019, the tourism and hospitality industry experienced an M&A high, contributing 15% and 22% respectively of total deals announced. However, with severe impact of the COVID-19 pandemic on this industry, this has since tapered off. It is expected that there may be more deals in the industry in 2021 and beyond, as potential acquirers with strong balance sheets see opportunities in businesses with limited exposure to business travelers.

Consumer sector

In Q1 2021, close to 20% of M&A deals were in the consumer sector and involved strategic buyers. Botswana's population is dominated by the youth (10 - 45 years) and this is expected to grow till 2050 (Source: World bank, UN, BMI Research). This is a key driver for rising consumerism in Botswana, which increases the interest of industry players to establish or increase their footprint in the country.

Manufacturing

The manufacturing sector had a high volume of M&A activity during 2017-2018. However, there have been few deals in this industry since then.

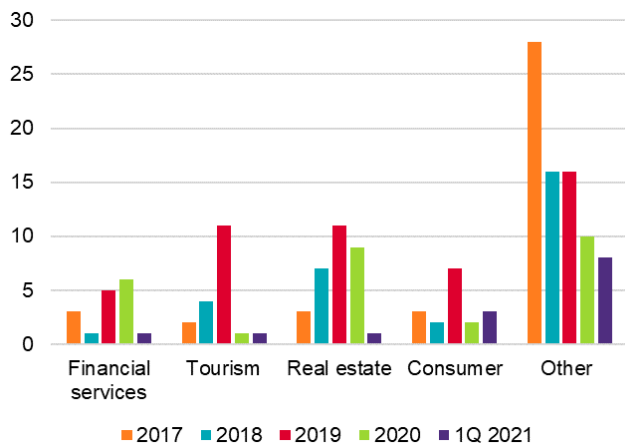


Chart 4: M&A deals by sector (Source: Competition and Consumer Authority)

Some of the other insights from the database include a rise in the trend of private equity funds, pension funds, development financial institutions and investment holdings companies, both from within Africa and

abroad, who are willing to invest in potentially growing industries.

How we can help

Globalisation and company growth ambitions are once again starting to drive an increase in M&A activity as businesses look to increase their footprint in domestic market and beyond. We work with entrepreneurial businesses, their owners and management teams to help them understand the true commercial potential of the business they plan to acquire and how the acquisition might serve their strategic goals.

Our range of services include:

- Buy-side and sell-side M&A advisory
- Raising finance
- Financial and Commercial due diligence
- Vendor due diligence
- Valuations
- Independent business reviews
- Competition and Consumer Authority clearances

Contact a specialist - we're here to help!

Get in touch with our Advisory Services team to find out how we can help your organisation.



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