ASSOIATION OF ISSUING HOUSES OF NIGERIA

ASSOCIATION OF STOCKBROKING HOUSES OF NIGERIA

MERGER & ACQUISITION AS AN OPTION FOR RECAPITALIZING THE STOCKBROKING INDUSTRY

CASE STUDY OF PLANET CAPITAL LIMITED

Planet Capital

TONY ANONYAI
Co-CEO & MD, STRATEGIC ADVISORY SERVICES
PLANET CAPITAL LIMITED

September 2014

CAPITAL MARKET INDUSTRY – RECAPITALISATION OPTIONS

CAPITAL RAISING

MERGER

BOTH

September 2014 → **December 2014**

CAPITAL RAISING

- Rights Issue to existing shareholders
- Private Placement to potential shareholders/strategic investors

MERGER

- Merger of Equals
- Prepare yourself as a beautiful bride to be acquired

OUTLINE

- INTRODUCTION – STRATEGIC APPEAL OF M&A
- THE CASE AGAINST M & A
- THE TWO SIDES OF M&A STORY
- M&A PHENOMENON IN NIGERIAN FINANCIAL SECTOR
- M&A IN STOCKBROKING SUB-SECTOR
- NEW CAPITAL REQUIREMENT
- THE M&A OPTION
- THE FEAR OF M&A IS REAL
- WHAT DID WE DO AT PLANET CAPITAL?
- CHALLENGES OF OUR MERGER
- SOLUTION
- RECOMMENDATION – THE TYPICAL PROCESS OF AN M&A DEAL

INTRODUCTION

The strategic appeals of M&A are very well known

1. Resource Sharing

Å Economies of Scale
o Efficiency
o Learning Curve

Å Economies of Scope
o Distribution channels
o Complimentary products

2. Skills Transfer
Å Know-how
Å Functional Capabilities

3. Managerial Capabilities Transfer
Å Strategy formulation and execution
Å Organisational Culture
Å Control Systems
Å Leadership & Motivation

THE CASE AGAINST M & A

- Inability to find suitable merging partners with strategic fit
- Transaction Costs (professional, legal and regulatory fees)
- Social issues (especially in Merger of Equals) including appointments to board and management positions, shareholding structure, emergent name, and loss of corporate brand and identity
- Regulatory issues
- Anti-trust issues
- Coping with minority interests and dissenting shareholders
- Post Merger integration issues: IT infrastructures, corporate cultures of legacy companies

Planet Capital

THE TWO SIDES OF THE STORY: EMPIRICAL EVIDENCE

ÅSuccess and failure stories abound

ÅGlobally, about 15% of proposed deals end up not going through because of valuation, social/soft issues

ÅAlso, research suggests that about 50% of mergers fail because of integration challenges

ÅMost M&A deals in Nigeria have not been well dimensioned to give clarity to integration challenges and impact on value creation.

ÅOn a scale, M&A should offer value if it is well crafted and executed

Planet Capital

M & A PHENOMENON IN NIGERIAN FINANCIAL SERVICES SECTOR

Growing in recent times, largely following regulation, to meet recapitalisation requirements

Year	Industry	Pre Recapitalisation	Post Recapitalisation
2005	Banking Recapitalisation	89 Banks	23 Banks
2007	Insurance Recapitalisation	103 companies	49 companies
2013	Primary Mortgage Banking Recapitalisation	89 PMIs	40 PMIs
2014	Capital Market Recapitalisation	More than 250 stockbroking firms	Yet to be determined

M & A IN THE STOCKBROKING SECTOR

Two prominent cases:

- Chapel Hill Advisory Partners and Denham Securities
- Planet Capital, Emerging Capital, and Strategy & Arbitrage

These two cases were driven by corporate strategic considerations: growth and sustainable value creation, yet achieved capital enhancements

About 280 stockbroking firms, mostly operating as sole proprietorship or largely in the same mould as sole proprietorship with the inherent challenges and limitations

We will be living in denial if we are to continue to expect that this current structure will subsist

Planet Capital

NEW CAPITAL REQUIREMENTS

Capital Market Operator	Current Minimum Capital	Proposed Minimum Capital	% Change
Broker	₦40 Million	₦200 Million	+400%
Dealer	₦30 Million	₦100 Million	+233.33%
Broker/Dealer	₦70 Million	₦300 Million	+328.57%
Issuing House	₦150 Million	₦200 Million	+33.33%
Underwriter	₦100 Million	₦200 Million	+100%
Registrar	₦50 Million	₦150 Million	+200%
Trustees	₦40 Million	₦300 Million	+650%
Rating Agencies	₦20 Million	₦150 Million	+650%
Corporate Investment Adviser	₦5 Million	₦5 Million	Nil
Individual Investment Adviser	₦500,000	₦2 Million	+300%
Fund/Portfolio Managers	₦20 Million	₦150 Million	+650%

Planet Capital

THE M&A OPTION

The M & A option should be considered now, more than ever before!

Corporate Considerations

- Diminishing growth prospects under the current structure
- Opportunities to gain competitive advantage by broadening present business to include complimentary products
- Opportunities to add value to clients' needs
- Attractive opportunities to transfer existing competencies to new businesses
- Potential cost savings opportunities to be realised by entering related businesses
- Availability of adequate financial and organisational resources to meet different regulatory requirements

THE M&A OPTION

Individual Considerations

- M&A from an individual career perspective – is a career development intervention strategy! And career from a multiple role perspective: family, health, social, religious

- Professor Cochran, a career development adviser once noted: “Indeed, career decisions entail determining what is to prevail and what is to be sacrificed”. In the circumstance, we ask ourselves, what is to prevail? What is to be sacrificed?

- What will prevail? A sustainable business model , personal training, and a balanced and improved quality of personal life

- What may be sacrificed?: Autonomy, ego, loss of job which can be moderated by personal self development.

My perspective is that without the promise of gain and the threat of loss, there is no decision to make. What promises await us? Significant opportunities for our shareholders and ourselves as individuals, if we do the right things now! And the THREAT – Extinction if we do not do the right thing!

THE FEAR OF FAILURE IN AN M&A DEAL IS REAL

ÅHow do we work to avert failure so that the potential synergistic values can be realised?

ÅThe prospects of value creation and the possibilities of failure are entrenched in how well or otherwise the emergent company handles the issues identified above under, managerial capabilities transfer:

ÅStrategy formulation & implementation

ÅOrganizational culture

ÅControl systems

ÅLeadership & Motivation

We emphasised these key elements at the different stages - pre-merger, during merger, and even continually so, till today.

Planet Capital

WHAT DID WE DO AT PLANET CAPITAL

PRE-MERGER

ENGAGE A KNOWLEDGEABLE & EXPERIENCED ADVISOR/MENTOR – We were fortunate to have had one!

Strategy formulation & implementation

- Conscious efforts were made to remove sentiments from decision making and interventions. A GRAND RULE was set with respect to decision-making: A majority vote carries the day, even though CONSENSUS will always be sought, and considered desirable.
- Business plan that effectively articulated value proposition, strategies and organisational structure were developed and agreed.
- Agreements were firmly committed to and pursued
- MOUs and shareholders' agreements were signed to capture post-merger structures.

Organizational culture

- We had minimal cultural differences. We adopted the core values of one of the legacy companies - Professionalism, Integrity, Customer-centric, and knowledge – and agreed to drive the organisational culture along those values.

WHAT DID WE DO AT PLANET CAPITAL

PRE-MERGER

Financial and Control systems

ÅNDAs were signed and sharing of files of control units started

Å Review of existing control systems were made

ÅPreliminary financial due diligence were conducted

ÅAgreements captured post-merger adjustments to the account of shareholders of legacy companies

Leadership & Motivation

Å The specific individuals expected to provide the executive leadership of the emergent firm were identified early during the pre-merger period, and these individuals were directly involved in strategic decision making leading to the consummation of the merger.

Å We decided the management and organisational structure early enough with clarity and delineation of roles, functional responsibilities, etc.

ÅWe agreed on a Co-CEO structure for the MDs of the merging companies.

Å The process of headhunting key staff to cover the gaps from new product lines started during this stage, even though formal contracts were not executed at this point. Staff of legacy companies were also interviewed for appropriate placement and accordingly align staffers of the legacy companies under the new arrangement to motivate them

Å Three strategic business development units were identified and agreed: Debt Capital Markets, Equity Capital Markets, and Strategic Advisory Services. In addition, support services units created included: Finance & Administration; Internal Control, Compliance & Risk Management; and Research & Strategy

Å Each business development and support service unit is managed by a Co-CEO who provides strategic leadership for his units.

WHAT DID WE DO AT PLANET CAPITAL

DURING MERGER

Strategy formulation & implementation

ÅAs soon as we got a No-Objection from the NSE and an Approval-in-Principle from the SEC, we committed unwaveringly to the actualising our set objectives.

ÅFormal strategy sessions were held to review milestones and recommit to the course.

Organizational culture

ÅIn support of the organisational culture, different sessions were held covering team building, integrity, respect for people, openness, knowledge sharing, professionalism, and zero tolerance for infractions, amongst other constituent ingredients of our core value.

Financial and Control systems

ÅAccounting staff from legacy companies initially worked in isolation focussing on their legacy companies. Gradually, integration began, and finally, the financial and control systems were merged.

ÅDue diligence was completed and accordingly reflected in the valuation.

Leadership & Motivation

ÅExecutive management resumed providing the needed leadership for their units.

ÅFormal contracts were given to legacy staff members on conditions better than their previous contracts. Headhunted staff resumed as well.

ÅReward systems clearly emphasizes result orientation.

WHAT DID WE DO AT PLANET CAPITAL

POST-MERGER

Strategy Formulation & Implementation
ÅBrand building to promote the new Planet Capital identity
ÅReview key strategic issues making necessary adjustments to reflect market reality

Organizational Culture
ÅWe have continued to promote our organisational culture based on our core values
ÅAll staff quarterly meeting is helping in fostering the organisational culture

Financial and Control Systems
ÅReview of all activities from pre-merger through consummation and to post-merger
ÅCodification of processes and automation of systems and processes

Leadership & Motivation
ÅSelf and peer appraisals applying the 360-degree feedback mechanism for CEOs has been adopted
ÅMentoring, knowledge sharing have continued
ÅResult driven reward system to serve as energizer and motivator is in place

CHALLENGES OF OUR MERGER

SOFT/ SOCIAL ISSUES

- Responsibilities and Roles of legacy directors in the emergent firm
- Treatment of legacy staff members
- Name of the emergent firm

VALUATION

- Valuation of non-quoted and illiquid quoted securities

TIME MANAGEMENT

- Because there was no regulatory deadline to be met, time management was not optimal

SOLUTIONS

SOFT ISSUES

- Ours was a merger of equals, thus issues were minimal
- A shareholder oriented management with equal stake
- Compromises
- Absorption of legacy staff
- Formal documentations of agreements
- Independent reconciliator

VALUATION

- Compromises
- Simple valuation model used – Net Asset Valuation method

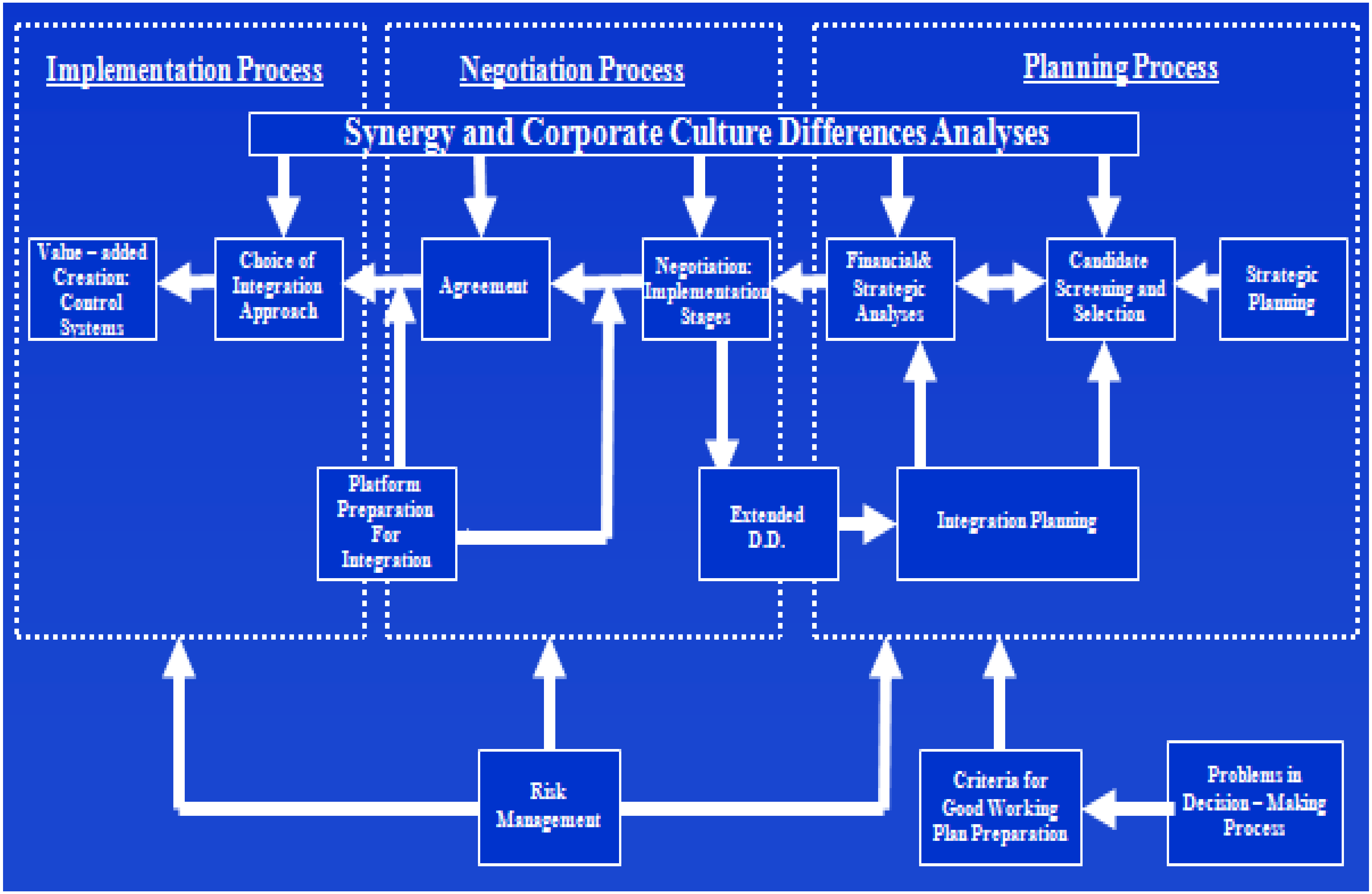
TIME MANAGEMENT

- For regulation-induced Mergers, time management is naturally better because of the regulatory deadlines

HOW FAR?

The journey thus far

THE TYPICAL M&A PROCESS CHAIN



RECOMMENDATIONS

Å Make a compelling commitment to this viable option

Å Consider it a compelling personal career decision you have to make

Å Engage an advisor/mentor to guide all the way through – pre, during and post!

Å Agree the GRAND RULES

Å Hold on to sustainable arguments and models throughout the process, and let go what is not sustainable.

Thank you

PLANET CAPITAL LIMITED

3rd Floor, St Peter's House

3, Ajele Street,

Lagos Island

Lagos

Telephone: 01-9504865

Email: info@planetcapitalltd.com

Website: planetcapitalltd.com