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Where deals are made

The New State of M&A

Africa, Middle East & Turkey

Contents

Executive Summary
Africa, Middle East & Turkey

For all the advances in recent years, just how digitally mature and technologically sophisticated is the M&A, due diligence, and asset marketing process in Africa, the Middle East & Turkey?

Moreover, what does the process look like today, and how might technology and accelerating digitization change the dealmaking process over the coming years?

These are some of the key questions we wanted to investigate and answer in this research, which involved surveying 155 M&A practitioners from corporates, private equity firms, investment banks, law firms, and professional services firms in this region, for their views on the subject.

The Africa, Middle East & Turkey (AMET) respondents, who form part of a global survey of 2,235 practitioners, provide insight into the current and future state of the dealmaking process; insight that shows similarities and differences between them and their peers across Europe.

155 AMET-based M&A practitioners surveyed

Digital maturity and barriers to adoption

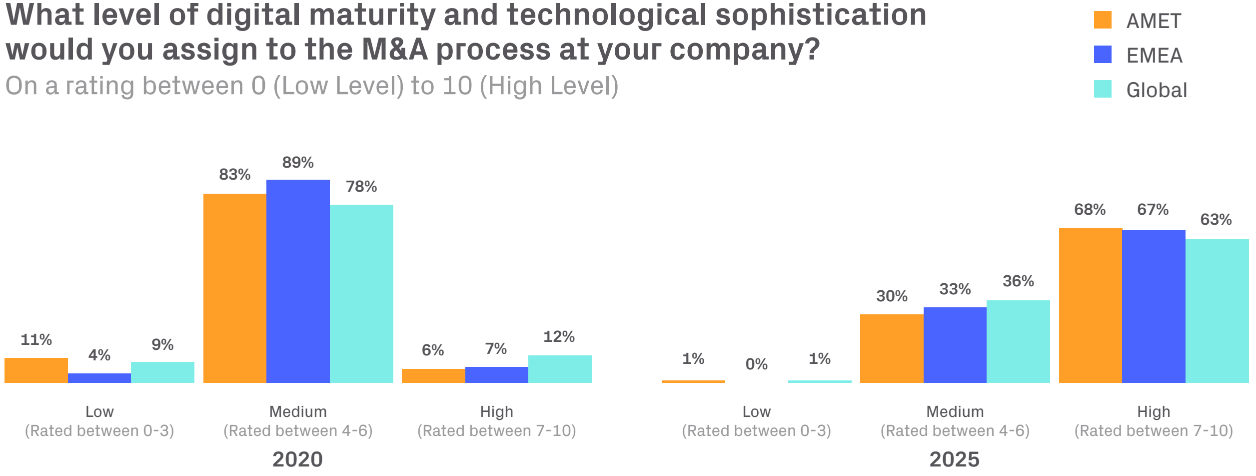
Most AMET practitioners today assess that the digital maturity and technological sophistication of the M&A process at their company and industry-wide is at a medium level, and they expect this to rise to a high level come 2025.

This view is the same across Europe. However, there are some intriguing results within these findings, such as 26% of Africa respondents – the highest percentage within the combined Europe, Middle East & Africa (EMEA) region – stating that their company's digital maturity and technological sophistication is currently at a high level.

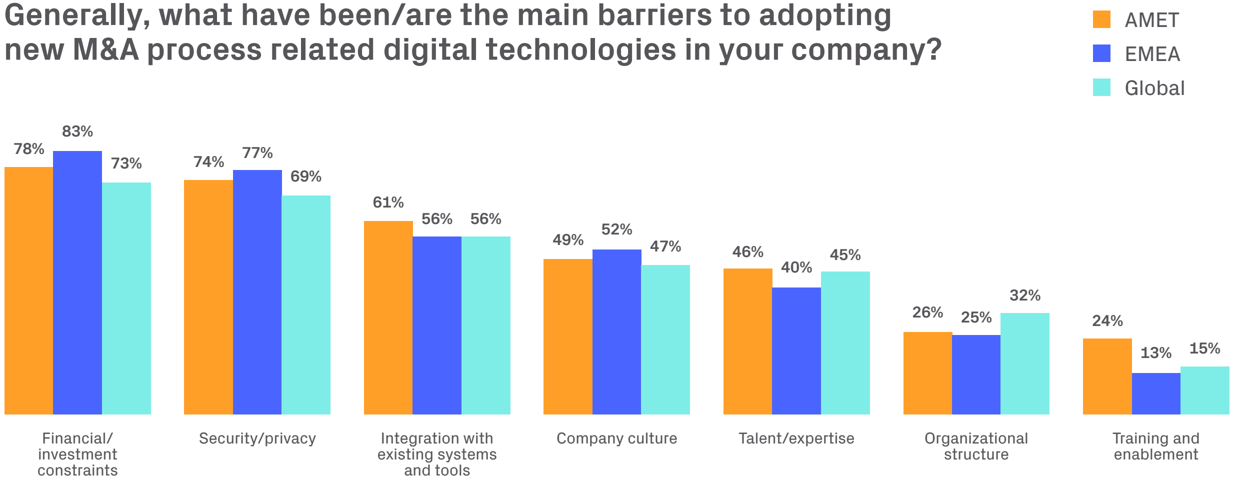
For respondents in AMET, financial constraints and security and privacy issues are two of the main barriers to their company adopting M&A process-related digital technologies. Yet, for 52% of Middle East practitioners, accessing talent and expertise is a key barrier, while 44% of Africa respondents say the same for organizational structure. These are some of the highest percentages in EMEA.

What level of digital maturity and technological sophistication would you assign to the M&A process at your company?

On a rating between 0 (Low Level) to 10 (High Level)



Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?



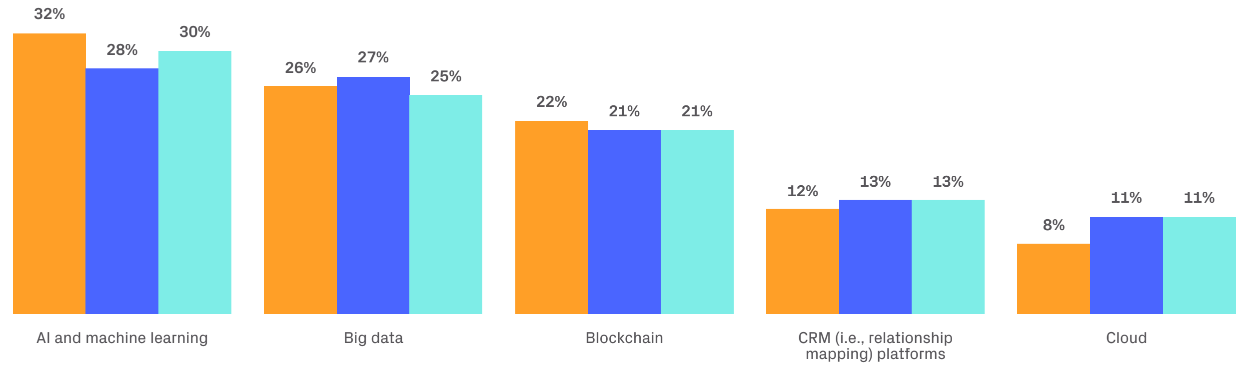
Technology for M&A transformation

Technological advances are, however, being made. And by 2025, most AMET practitioners believe technologies such as AI and machine learning, big data, and blockchain, could potentially have the most transformational impact on the M&A process, and in specific areas of it.

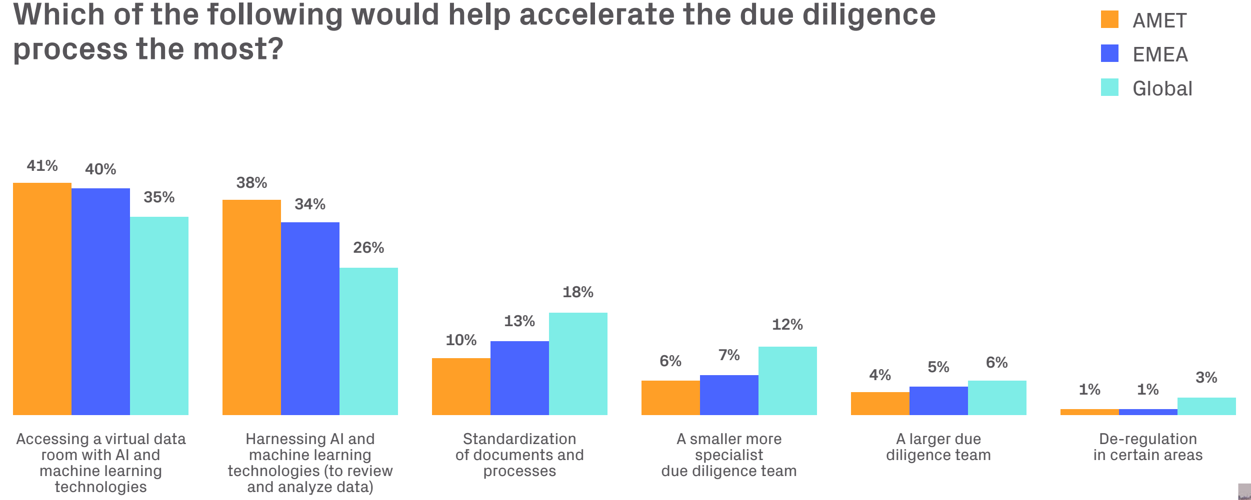
For instance, most believe that due diligence – the most time-consuming phase of the process – could be enhanced most by new technologies and digitization.

Indeed, most AMET practitioners expect technology to enable greater analytical capability, and security, in the diligence process over the next five years. In particular, they are also placing greatest hope in AI and machine learning technologies, especially as part of virtual data rooms, to speed up the due diligence process. In fact, 48% of Turkish practitioners – the highest percentage within EMEA – believe accessing a virtual data room with AI capabilities would help accelerate diligence the most.

Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?



Which of the following would help accelerate the due diligence process the most?



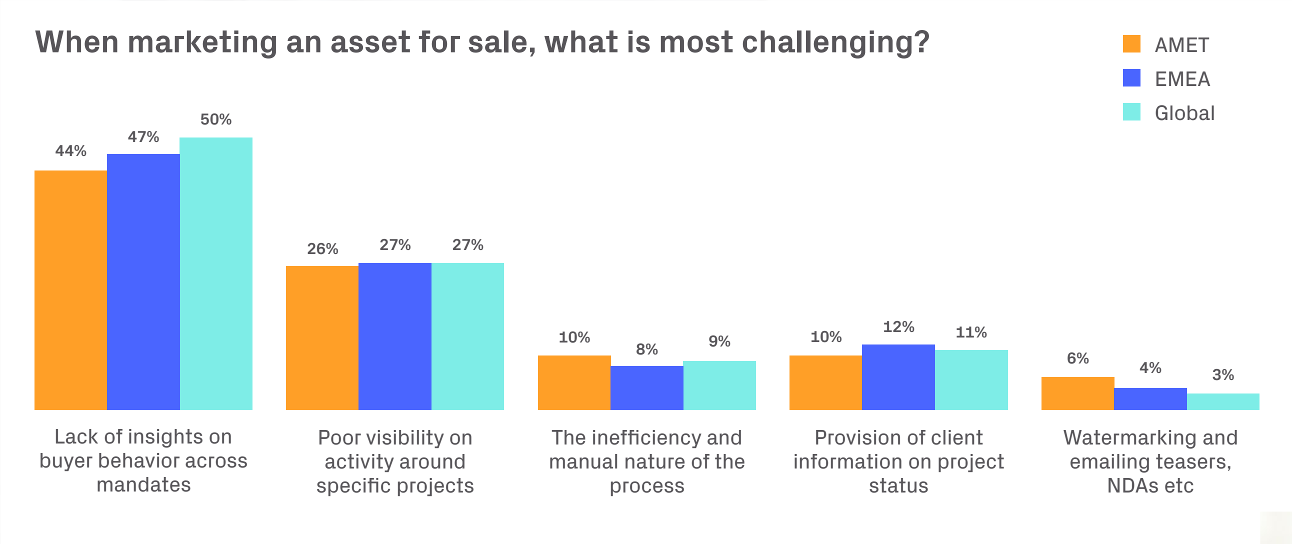
Technological benefits to M&A

Speed is important, but AMET practitioners also see these technologies and others helping to improve data management and communications, scenario analysis, and analytics and reporting.

What's more, these technologies have similarly beneficial uses in asset marketing, and could help address some of the key challenges in this process, such as a lack of insights on buyer behavior across mandates, according to most AMET practitioners.

Without doubt there have been some significant technological advances across the M&A process in recent years.

Yet, by 2025, there is an expectation among AMET practitioners, that both established and emerging technologies, perhaps built in to the next generation of virtual data rooms, could transform key areas of the process. They may even transform the M&A process entirely.



Key findings Current State of M&A

Maturity and sophistication

78%

of AMET practitioners assess a medium level of digital maturity and technological sophistication in their company's M&A process.

Barriers to digitization

78%

of AMET practitioners say financial or investment constraints are one of the main barriers to their company adopting M&A process-related digital technologies.

Enhancing diligence

54%

of AMET practitioners believe that among the key stages of M&A, new technologies and digitization could enhance due diligence the most.

Diligence speed

47%

of AMET practitioners say due diligence takes on average 3-6 months to complete on a successful deal.

Cybersecurity concerns

34%

of AMET practitoners say that data or cybersecurity concerns are the most common issue uncovered in due diligence that causes withdrawal from a deal.

Key findings Future State of M&A

Maturity and sophistication

75%

of AMET practitioners assess a high level of digital maturity and technological sophistication in their company's M&A process by 2025.

Advanced analytics

73%

of AMET practitioners believe new technologies should enable greater analytical capability in the due diligence process.

Diligence speed

59%

of AMET practitioners believe due diligence on a successful deal will accelerate to 1 month or less by 2025.

AI-enabled data rooms

41%

of AMET practitioners believe accessing a virtual data room with AI and machine learning technologies would help accelerate due diligence the most.

Transformational tech

31%

of AMET practitioners expect AI and machine learning technology to have the most transformational impact on the M&A process by 2025.

Case Study
African Capital Alliance

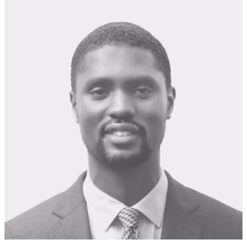
The power of data and tech in diligence and dealmaking

Sourcing private equity deals in Nigeria is a primarily relationship-based endeavor, especially for the local firms that have unparalleled insight into the market and its regulations.

What's most helpful on the technology side is gaining transparent information on potential targets, says Bunmi Adeoye, principal at African Capital Alliance (ACA).

"Data helps us get the right information to make decisions. Tech helps us do more due diligence, confirm what we learn, and make sure the businesses we invest in can actually deliver on the plans we've agreed."

African Capital Alliance is a market pioneer and leading African-focused investment firm with subsidiaries and branches in Mauritius, Ghana, and Nigeria.



Bunmi Adeoye
Principal
African Capital Alliance

ACA

Data rooms for value and opportunity

With an objective of 'no surprises', ACA also uses virtual data rooms to "look under the cover" and identify problems with buyout targets, 90% of which are growth businesses rather than start-ups. Finding problems doesn't necessarily derail deals, but instead can create value and opportunity, he says. What is a red flag is any effort to block information, Adeoye warns.

In the future, he hopes that data rooms will enable the buy-side to plug directly into targets. "It would be helpful to access comparisons among private companies, both locally and internationally. This would allow us to analyze more information, and to put it into the right form, for example into graphs, and leave us more time for the rest of our job."

Regulation, innovation, and advancement

There is an increase in Nigerian regulation, which adds complexity, but will in the longer term add value to local companies and the broader economy, notes Adeoye. Now, the Federal Competition and Consumer Protection (FCCP) focuses on deals involving a controlling stake, while updates to the Companies and Allied Matters Act (CAMA) have made it easier to do business.

"On a practical level, the regulations are important. The challenge is making sure they are streamlined. How do you work with them all together? The more we use the FCCP and CAMA, and the more the other stakeholders get accustomed, the regulations will improve over time. It's important in the long term to get the regulations right and to ensure they are living documents to make them more responsive to the market. It's a work in progress."

In TMT, which is Adeoye's focus area, there is continued innovation in payments (an area where Africa has led), convergence with lending, expansion into adjacent sectors, and a focus on economies of scale.

More broadly, there is "lots of discussion about Africa being treated as a block," thanks to the African Continental Free Trade Area (AfCTA). Drivers for intra-African trade include payment applications, as well as platforms that enable businesses to buy and sell in local currencies, explains Adeoye.

Another is manufacturing, with global companies setting up local production hubs to overcome supply chain shortages and take advantage of cheaper labor.

"Investing in Africa leads to jobs, wealth, and opportunity. It's better for women's advancement and creates jobs for young people. Good regulations can help us lift people out of poverty, spreading wealth and enabling innovation."

Case Study
Reed Smith

Using advanced technology to save time and do more

Of all the dealmakers, it is law firms that have most embraced digitization. “Reed Smith is very good at developing its own tech,” says Adela Mues, a Dubai-based partner in Reed Smith’s corporate global group. Gravity Stack, the firm’s tech subsidiary, employs around 60 specialists who develop bespoke solutions for use in-house and by clients.

The unit provides a collaborative platform to access services, including project and task management, calendars, and budget management; a first draft document generator; a deal-closing tool; a project management application; and complimentary templates for early-stage entrepreneurs. Internally, there are also tools to assist with proofreading, litigation, and breach notification.

“All of these services save hours of time on repetitive tasks, meaning we can do more for less, which is useful in the UAE’s competitive market. The better our documents are, and the faster we can get them done, the more the whole transaction will benefit. When you have a platform that all the parties can use, it helps everyone.”

Reed Smith is a leading international law firm, with 30 offices across the world.

Adela Mues
Partner
Reed Smith

ReedSmith
Driving progress
through partnership

As AI and machine learning get better, due diligence and document drafting will become less human-dependent. "At some point, they will become so sophisticated that we won't need to make many corrections," predicts Mues.

Where humans will be irreplaceable is negotiation, which is driven by emotions, psychology, and principles. Plus, being able to leave repetitive tasks to the technology will leave lawyers with more time for relationship building.

The power, and limits, of tech

"I've been here for 13 years, having moved from London," says Mues. "Since then, I have witnessed Dubai's ambitious vision, implemented at incredible speed. This is a business-driven place that encourages investors, updating laws and customs to accommodate market development."

For example, the UAE has moved away from FDI restrictions capping ownership at 49%, while helping Emiratis train in business and launch start-ups.

Dubai is emerging as a cryptocurrency hub, attracting investors from the US, Europe, and Asia. In addition to the introduction of a virtual assets legal framework in mainland UAE, financial free zones in Abu Dhabi (ADGM) and Dubai (DIFC) have drawn up specialist crypto regulatory regimes, with their own commercial, employment, and contract regimes, overseen by specialist courts and regulators.

There has been a flurry of legislation in the last six months, says Mues. These include an offshore companies law, and a virtual assets law issued by the SCA, an onshore regulator. The DIFC has launched a consultation paper on crypto token regulations, while the ADGM is in the process of updating its virtual assets regime, first introduced in 2018. ADGM has furthermore issued a detailed discussion paper on decentralized finance, which is currently unregulated but may become subject to a degree of regulation.

"The region is constantly evolving and progressing, so the laws change often," says Mues. "We now have an onshore data protection law onshore, while employment law has been overhauled to reflect newer trends such as remote working, part-time working, and secondments. Companies have one year to update employment contracts and policies, so it's keeping a lot of people busy."

Case Study
AK Investment

Leveraging process automation to manage more deals more often

In the fintech era, technology has arguably become just as important as people when it comes to the quality of financial services traditional banks can offer.

“A bank cannot survive without investment in technology, IT, and digital talent, as well as partnerships with fintech companies and technology suppliers,” according to Mert Erdoğmuş, CEO and member of the board of directors at AK Investment.

The Turkish bank is offering customers mobile, web, and desktop applications, high transaction speeds, and robo-advisory to improve investment decisions. “Differentiating on technology is now a must-have,” he says.

Technology has become integral to the entire M&A process, and it’s vital that deal teams prioritize technology harmonization at the start, in order to resolve any complexities quickly and accurately, continues Erdoğmuş.

“By leveraging increased automation in our processes, we are more able to manage many deals simultaneously in a more dynamic manner, which leads to better outcomes for all parties.”

AK Investment is the 100%-owned investment banking and capital markets affiliate of Akbank, one of Turkey’s leading banks.

Mert Erdoğmuş
CEO and member of the board of directors at AK Investment

AKInvestment

Data rooms and tools for better dealmaking

During the preparation phase of the deal, AK Investment uses data and intelligence platforms to identify targets. During valuation, bankers rely on platforms for market data. Starting from the due diligence phase until closing, they work with a virtual data room provider to facilitate document sharing and Q&A sessions, he explains.

Increasingly sophisticated functions such as analytical tools and flexible reporting capabilities provide a better understanding of the sensitivities any potential investors may have, as well as other pressure points, he adds. In the meantime, big data-enabled tools and reporting mechanisms enable more predictability on the potential negotiation points in the share purchase agreement (SPA) and shareholder agreement (SHA) processes.

"Our hope is that the data room will evolve from a data platform into a deal platform, so that multiple investors can structure deals on a collaborative basis – like they currently do for venture capital-type transactions. Such a platform could also allow for the content, structure, and submission of non-binding and binding offers, as well as investor selection criteria automation and contract negotiation processes," notes Erdoğmuş.

Competing on a global scale

The Turkish M&A market is busy. According to Deloitte, 2021 saw 390 transactions worth a combined $10.1 billion, reflecting 28% and 12% growth on the previous year in terms of deal number and deal value, respectively.

Inbound investors (representing 58% of deals, according to Deloitte) are showing a renewed interest in the Turkish market, attracted by the strong economy and strong inorganic growth. Corporates have deleveraged and private equity firms boast solid liquidity, while tech and gaming start-ups and growth companies offer international growth potential, he says.

Other hot sectors, adds Erdoğmuş, include industrial manufacturing, food and apparel, energy, and infrastructure, all of which are attracting foreign investors.

Meanwhile, outbound deals are aimed at attaining 'know-how', diversifying product lines, reaching export markets directly, and competing on a global scale.

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Research Methodology

The analysis in this report is based on the survey responses from 155 Africa, Middle East, and Turkey based M&A practitioners. These responses formed part of a larger global survey of 2,235 M&A practitioners.

By institution type, respondents were split between companies and private equity firms, representing the acquirers; and investment banks, law firms, and professional services, representing M&A advisors.

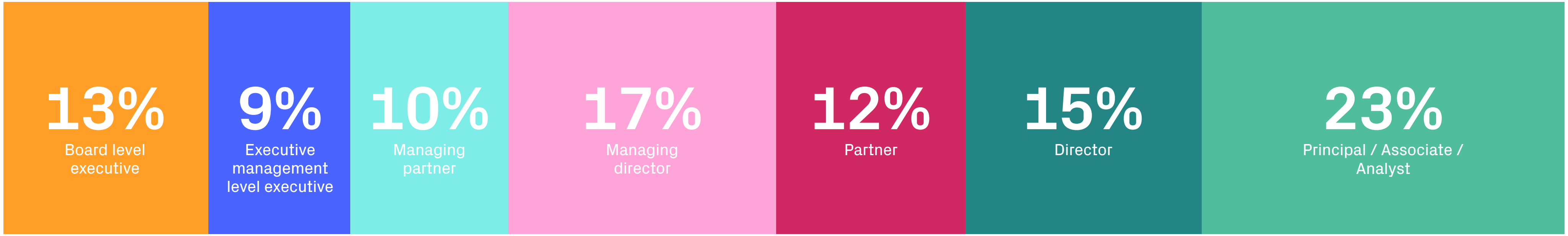
The respondents held a variety of roles, including board and executive management level executives, managing partner, managing director, and partner level executives, directors, principals, and associate level executives.

The global survey was conducted by Euromoney between February and April, 2020.

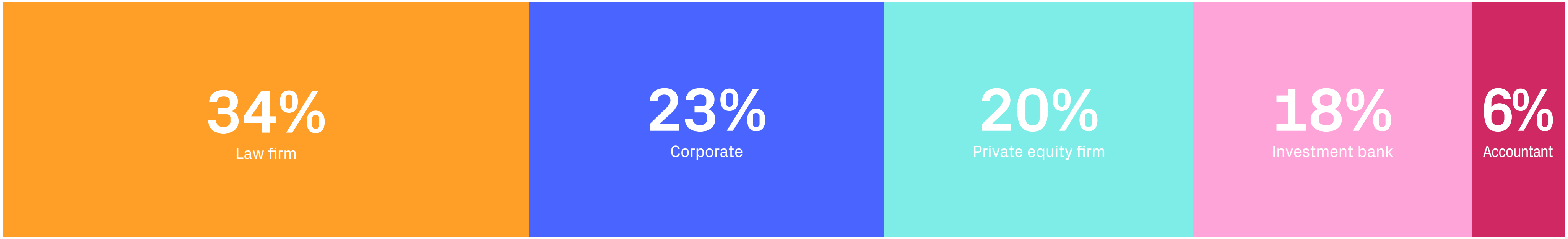
Research Demographics

Percentages in the following charts are rounded to the nearest 1%.

Which of the following best describes your position?



Company type

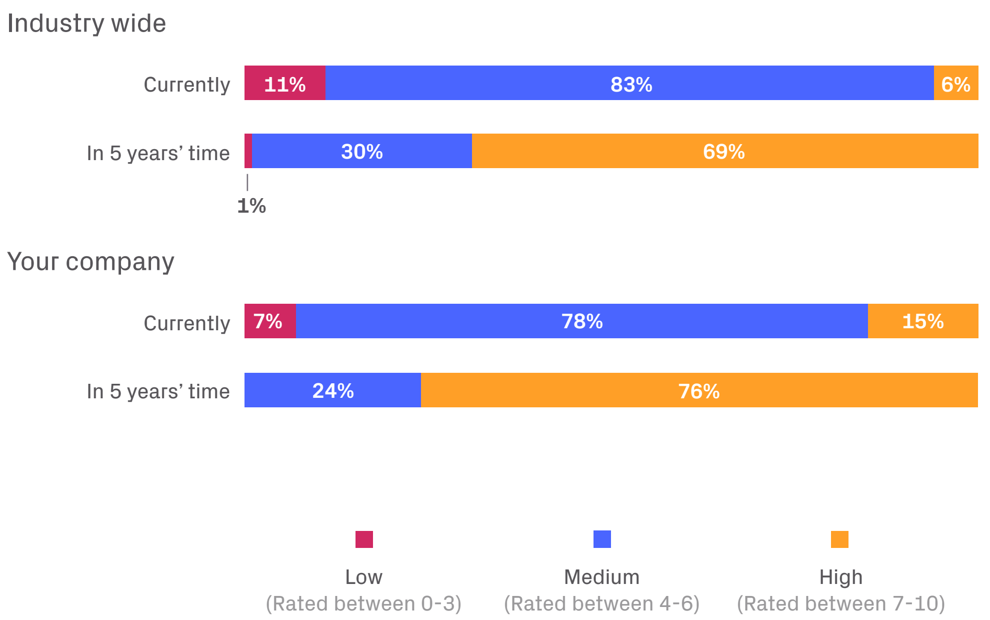


Results
Digitization

Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?

- 54% Due diligence
- 12% Asset marketing
- 10% Strategy
- 8% Deal preparation
- 8% Sourcing
- 6% Negotiation
- 2% Post-merger integration
- 1% Closing
- 0% Exit

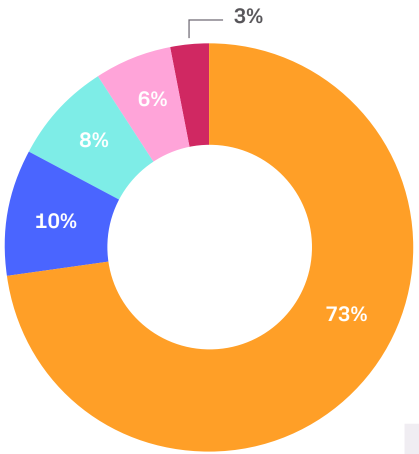
What level of digital maturity and technological sophistication would you assign to the M&A process?
On a rating between 0 (Low Level) to 10 (High Level)



In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

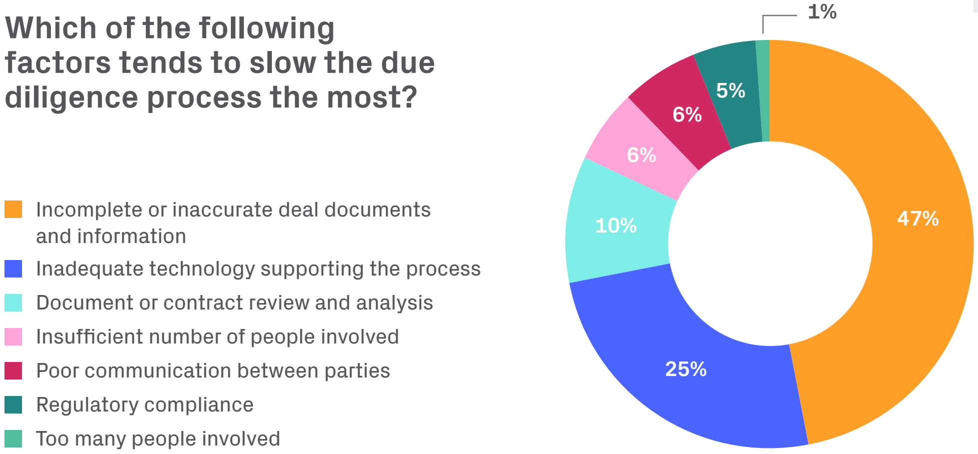
New technologies should...

- Enable greater analytical capability
- Enable greater security
- Simplify the entire process
- Reduce the total deal (resources and time) cost
- Make it faster to close deals

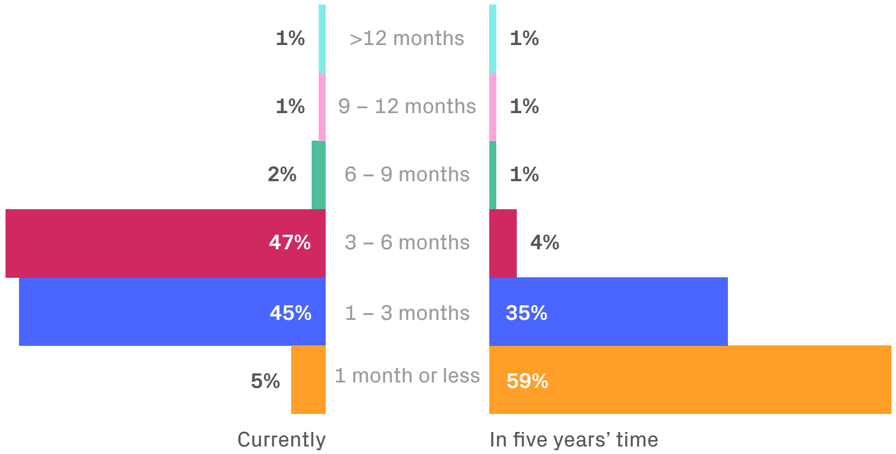


Results
Due Diligence Process

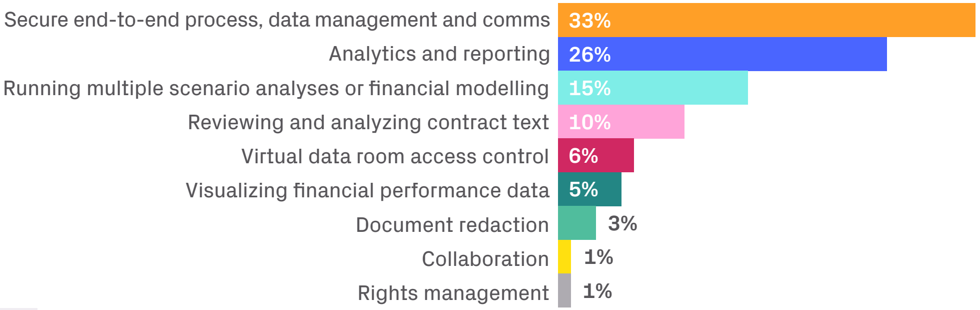
Which of the following factors tends to slow the due diligence process the most?



From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?



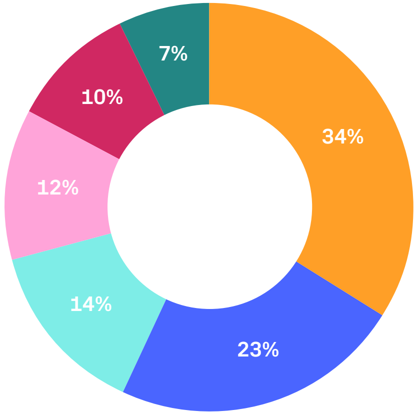
Which of the following do you believe technology could help improve the most?



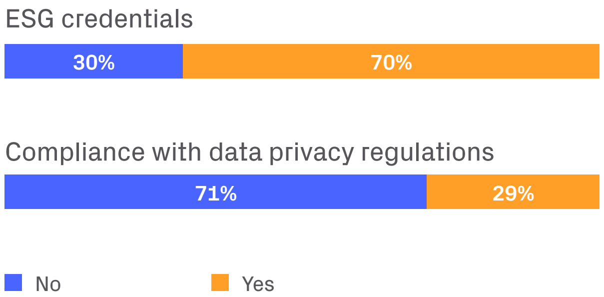
Results
Due Diligence Concerns

What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?

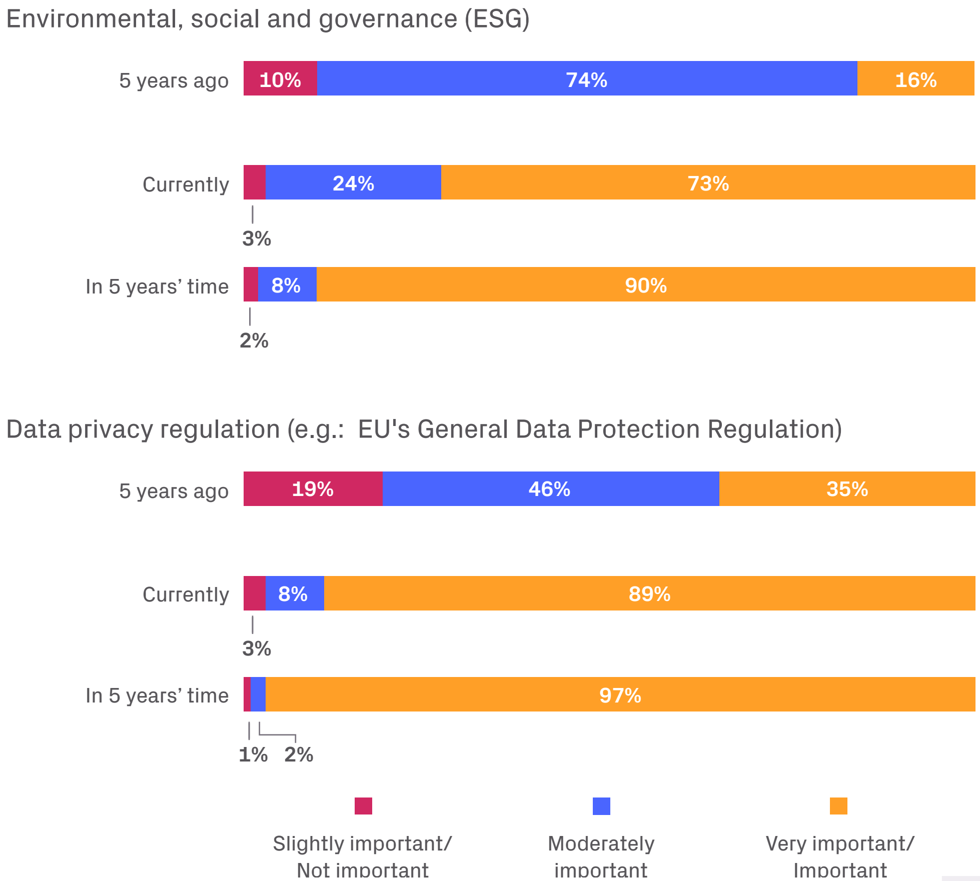
- Data or cyber security concerns
- Financial weakness or fragility
- Financial irregularities
- Leadership concerns
- Excessive valuation
- Regulatory non-compliance
- Staff concerns (No votes)



Have you worked on M&A transactions that have not progressed because of concerns about a target company's:



As a consideration in M&A due diligence, assess the importance of the following issues:



Results

Asset Marketing and Acquisitions

When marketing an asset for sale, what is most challenging?

44% Lack of insights on buyer behavior across mandates

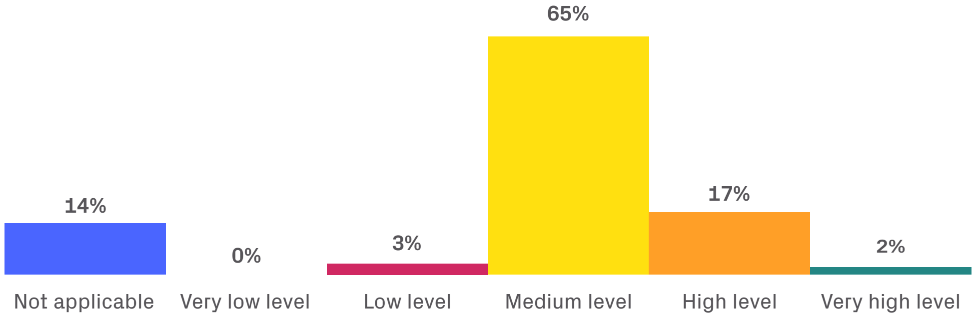
26% Poor visibility on activity around specific projects

10% The inefficiency and manual nature of the process

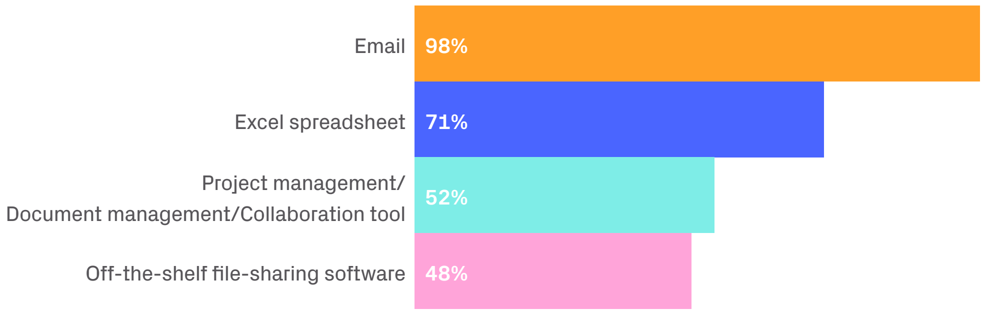
10% Provision of client information on project status

6% Watermarking and emailing teasers, NDAs etc

When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?



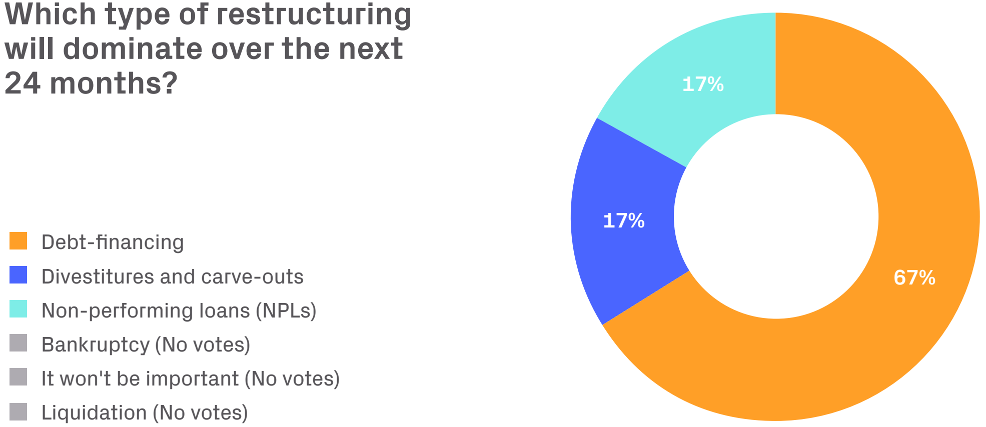
What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?



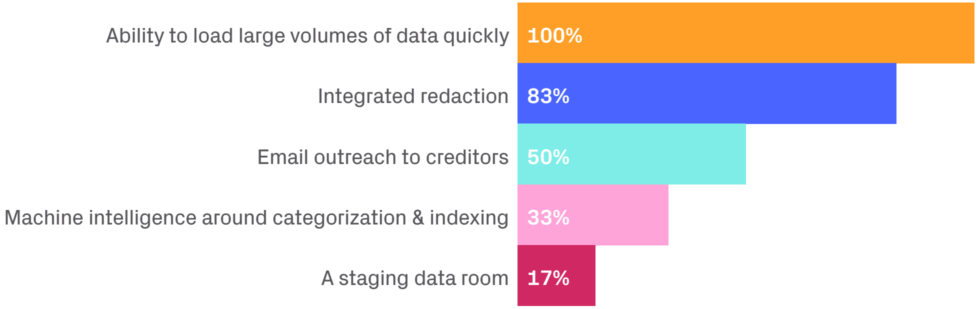
Results

Restructuring

Which type of restructuring will dominate over the next 24 months?



What tools are most useful for restructuring?



About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specializes in creating original, authoritative and impactful thematic research and content for global business and finance leaders.

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