



**A PRESENTATION BY BDO
ZIMBABWE TO THE ZAMFI
WINTER SCHOOL, NYANGA
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PRESENTATION TOPIC

POSITIONING THE MICRO FINANCE SECTOR FOR GROWTH THROUGH MERGERS AND ACQUISITIONS

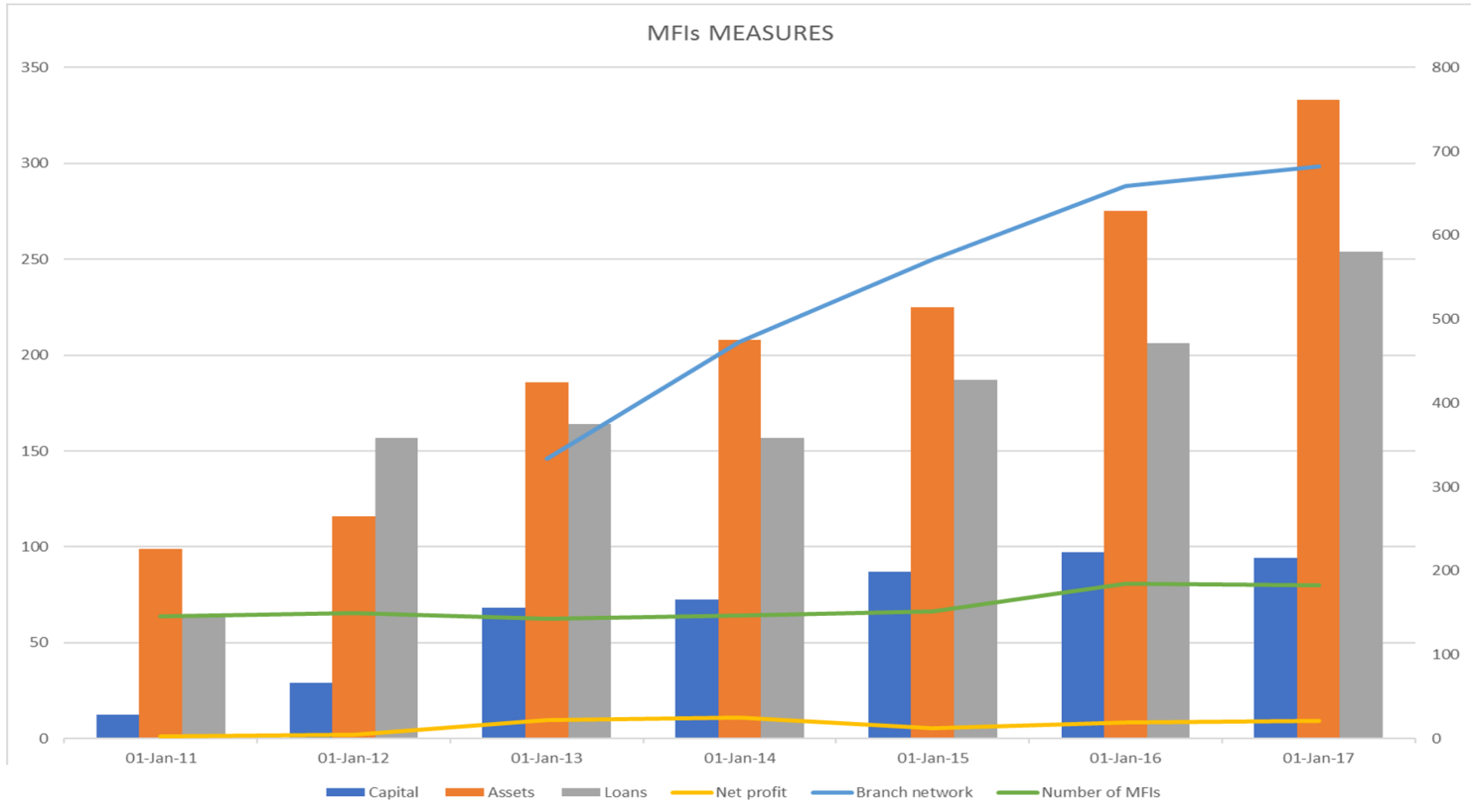


PRESENTATION OUTLINE

1. FINANCIAL ANALYSIS OF THE MFI INDUSTRY
2. BUSINESS GROWTH
3. WHY M&A AS GROWTH PATH
4. CASE FOR M&A WITHIN MFIs
5. M&A IMPLEMENTATION STRATEGY
6. WHY M&A FAIL?
7. SUCCESSFUL M&A TRANSACTION EXECUTION
8. MISSION CRITICAL ISSUES
9. HOW BDO CAN HELP YOU WITH YOUR M&A STRATEGY



FINANCIAL ANALYSIS OF MFIs IN ZIMBABWE (source: RBZ MFI Reports)



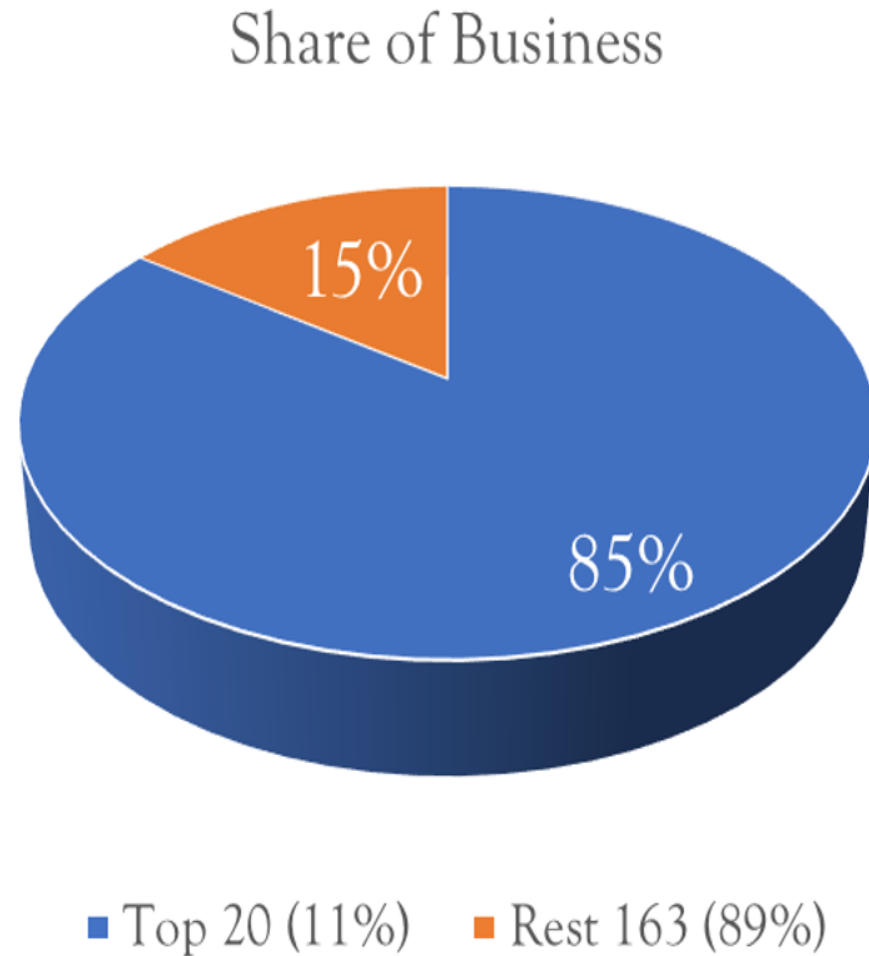
FINANCIAL ANALYSIS OF MFIs IN ZIMBABWE *(cont'd)*

- **PROFITABILITY (ABSOLUTE TERMS) CONSTANT OVER THE YEARS**
- **BRANCH NETWORK INCREASED SIGNIFICANTLY**
- **ASSET BASE SHOWING STEEP GROWTH**
- **SLOW GROWTH IN CAPITAL LEVELS**

FINANCIAL ANALYSIS OF MFIs IN ZIMBABABWE *(cont'd)*

TOP 20 MFIS CONTROL OVER 85% OF THE BUSINESS AS MEASURED BY LOANS.

THE REST (163 MFIS) SHARE 15% OF BUSINESS

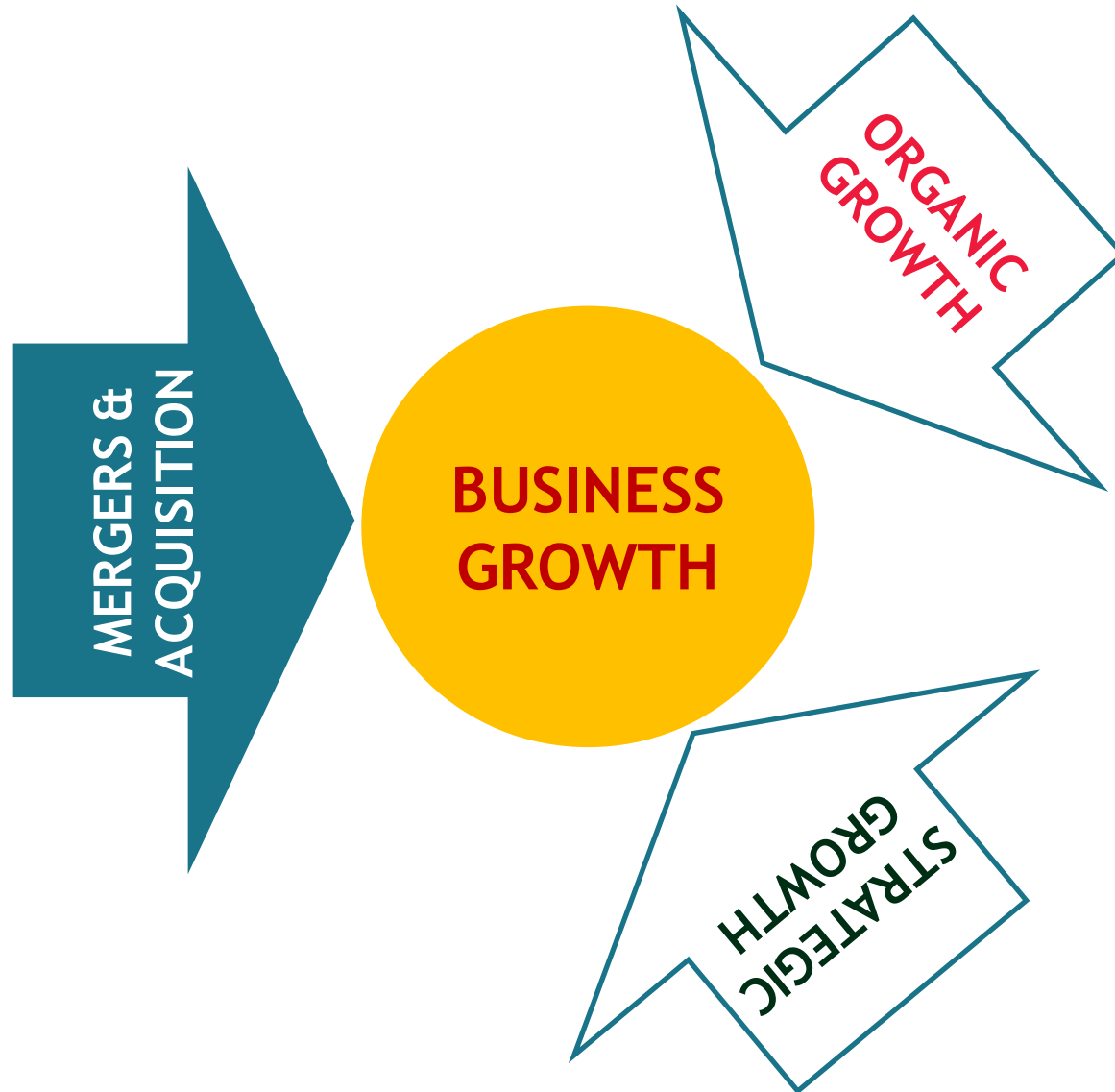


WHAT DO THE STATISTICS MEAN



- BRANCH NETWORK EXPANSION HAS NOT INCREASED PROFITS IN ABSOLUTE TERMS
- BRANCH EXPANSION NOT GENERATING ENOUGH REVENUE TO ABSORB ATTENDANT COSTS = RETURN ON COST INVESTED IN BRANCH NETWORK IS LOW, IF NOT NEGATIVE
- INCREASE IN CLIENT NUMBERS AGAINST STAGNANT PROFITS IMPLIES ADDITIONAL CLIENTS ARE NOT PROFITABLE
- INCREASE IN ASSETS (LOAN ASSETS) BUT LOW CAPITAL LEVELS IMPLIES LOSSES AND BY IMPLICATION, DEBT FUNDING
- SUSTAINABILITY ??????

GROWTH FORMULA/SOURCES OF GROWTH



WHY MERGERS & ACQUISITION



- COST SYNERGIES
- CHANNELS TO ACCESS NEW MARKETS
- ADDED CAPABILITIES (*PEOPLE, PROCESSES & SYSTEMS*)
- ACCESS TO NEW CUSTOMER SEGMENTS
- INCREASED CAPITAL TO DEPLOY
- INCREASED COMPETITIVE ADVANTAGE

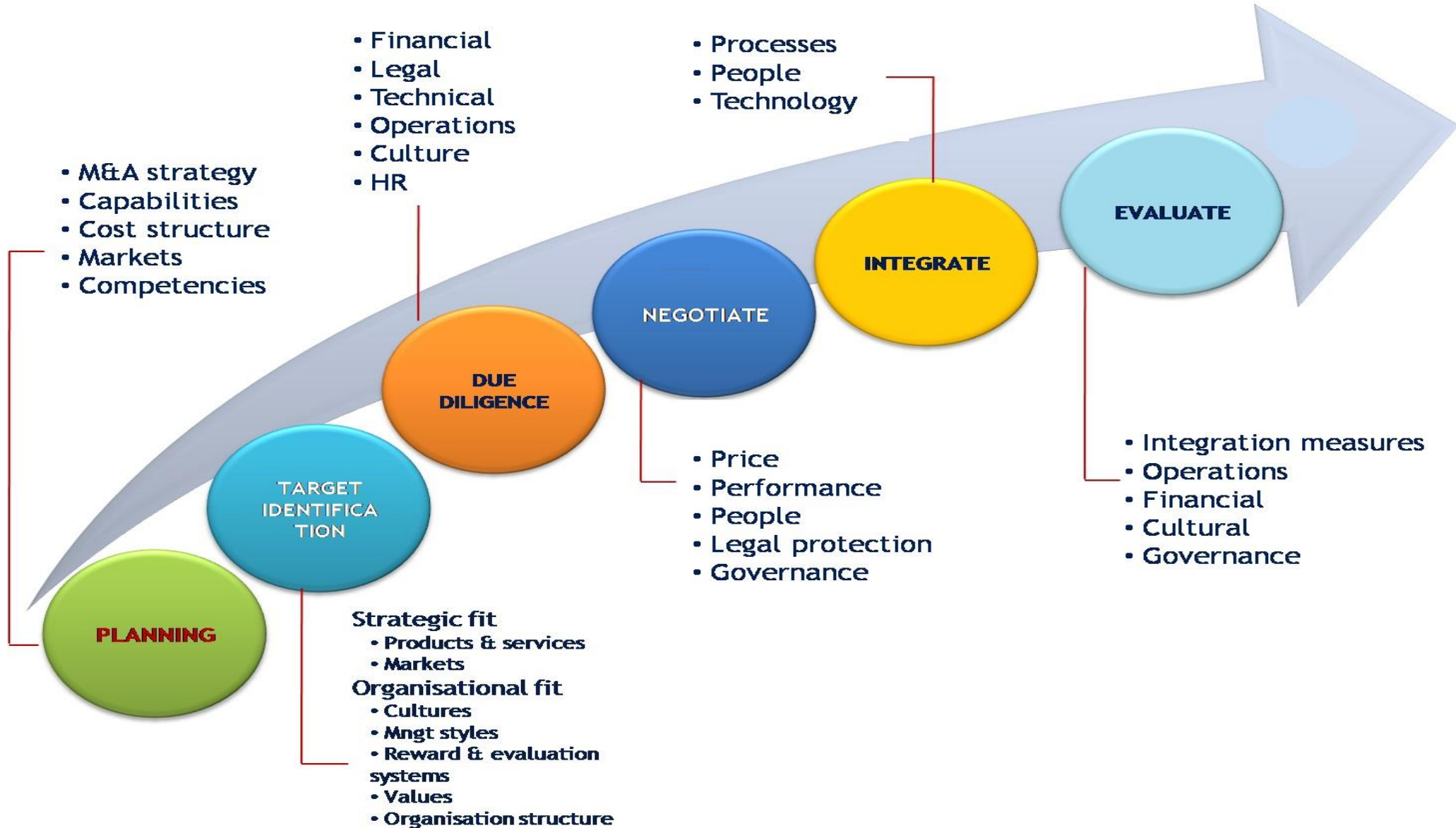
MERGER & ACQUISITION DECISION POINTS

COST SYNERGIES	CHANNELS	CAPABILITIES	NEW CUSTOMER SEGMENTS	CAPITAL	COMPETITIVE ADVANTAGE
ECONOMIES OF SCALE	NEW MARKETS (GEOGRAPHY)	MANAGEMENT	FARMING	INTERNAL RESOURCES	REDUCES COMPETITIVE RIVALRY
PAYROLL		SYSTEMS	MINING	CAPITAL CONTRIBUTION	
OVERHEADS		PROCESSES	AGRICULTURE	REDUCED COST OF CAPITAL	
		TECHNOLOGY	RENEWED ENERGY		

CASE FOR MERGERS & ACQUISITIONS IN THE MFI SECTOR

- SCOPE FOR ECONOMIES OF SCALE
- SCOPE FOR SYNERGIES
- HIGH COST (FIXED ???) STRUCTURE VS LOW INCOME BASE
- LOW ENTRY BARRIERS = COMPETITION
- 85% OF BUSINESS CONTROLLED BY ONLY 11% OF PLAYERS
- MARKET STILL CONTESTABLE: LOW FINANCIAL INCLUSION
- GROWTH IN VOLUME (CLIENTS AND BRANCHES) BUT STAGNANT CAPITAL + RETAINED EARNINGS = NO REAL INDUSTRY GROWTH

IMPLEMENTING A MERGER & ACQUISITION STRATEGY



WHY DO MERGERS & ACQUISITIONS FAIL?



- **INADEQUATE DUE DILIGENCE**
- **BY-PASSING NON-TRADITIONAL DUE DILIGENCE**
 - PERSONAL TRAITS CHARACTERISATION; CUSTOMS AND NORMS
- **INADEQUATELY DEFINED INTEGRATION APPROACH**
 - DELIVERABLES/DUE DATES/MILESTONES
 - INFORMATION FLOWS
 - RESOURCE/INFRASTRUCTURE REQUIREMENTS
 - CULTURAL INTEGRATION
 - TRAINING NEEDS
 - STAFF DEMOTIVATION
 - NON-ALIGNMENT OF MANAGERIAL BEHAVIOURS
 - LACK OF ROLE CLARITY
 - GOVERNANCE

SUCCESSFUL M&A TRANSACTION EXECUTION

- EFFECTIVE INTEGRATION PLANNING
- EFFECTIVE M&A PROJECT MANAGEMENT AND GUIDANCE
- EXECUTIVE LEADERSHIP
- CONTINUOUS COMMUNICATION AND FEEDBACK
- RETENTION AND RE-RECRUITMENT OF KEY STAFF
- STAFF ENGAGEMENT AND MOTIVATION
- CULTURAL INTEGRATION
- MEASUREMENT AND REPORTING
- ADVISOR INDEPENDENCE & IMPARTIALITY



MISSION CRITICAL ISSUES IN MERGER & ACQUISITION TRANSACTIONS

- **CORPORATE GOVERNANCE**
- **FORM OF PAYMENT**
- **LEGAL ISSUES**
- **CONTRACTUAL ISSUES**
- **REGULATORY APPROVALS**

HOW BDO ZIMBABWE CAN SUPPORT YOU IN YOUR M&A STRATEGY

- **DEVELOPING M&A STRATEGY**
- **TARGET IDENTIFICATION & EVALUATION**
- **SUPPORT DURING NEGOTIATIONS**
- **HAND HOLDING YOU DURING EARLY STAGES**
- **EVALUATION OF THE M&A**