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Review of Mergers & Acquisition Cases in Sri Lanka

Ramzeena Morseth Lye
ramzeenalye@gmail.com

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ABSTRACT

Mergers & Acquisitions (M&A) are strategic growth tools used by organizations aiming for market dominance and sustainable growth in shareholder wealth. While M&A sound impressive they involve many complexities, conundrums and risks (Angwin, 2001; Algama, 2020) requiring a great deal of thinking, effort and resources to get right. Despite the commonality of M&A in developed as well as emerging markets a good majority of them fail (Hitt, 2012) and there doesn't seem to be a thorough understanding of why they fail (Cartwright and Schoenberg, 2006).

This article is a brief review of several noteworthy M&A executed in Sri Lanka in the recent history between Dialog Axiata & Wow.lk, Dialog Axiata & H-One, Mobitel & E-Channeling, Hutch Lanka & Etisalat Sri Lanka, ACL Cables & Kelani Cables, Gamma Pizzakraft & Keells Restaurants (Pizza Hut operation in Sri Lanka), Softlogic Holdings & Odel/Cotton Collection, SS Equity Holdings & RIL Property PLC (BreadTalk operation in Sri Lanka). The article attempts to understand the likely business objectives behind these strategic moves and if the expected results have materialized.

Empirical evidence suggests that a vast majority of M&A fail to deliver the expected results. It is important that business managers evaluate the pros and cons of the M&A route carefully, formulate well defined goals & strong integration plans should they wish to proceed.

The analysis was carried out based on already published data using company press releases, information from their websites, other online press articles, existing literature on mergers & acquisitions and authors experience/involvement in two of the cases being discussed and insights from industry insiders.

Keywords: *Challenges & Pit-Falls, M&A Cases in Sri Lanka, M&A Law in Sri Lanka, Merges & Acquisitions, Definitions, Strategic Importance, Theories*

1. INTRODUCTION

The purchase of or sale of a business or enterprise is a transaction driven by a complex set of activities that present opportunities but bear considerable risk (Angwin, 2001; Angwin, Mellahi et al., 2014). Although the term Mergers and Acquisitions (M&A) are frequently used interchangeably, they come with different legal meanings. A merger is defined as the combining of two or more companies into a single corporate entity, with the newly created company often taking on a new name. An acquisition is a combination in which one company, the acquirer, purchases and absorbs the operations of another, the acquired (Gaughan, 2007; Thompson, 2016) . They are a form of organizational growth which allows firms rapid development vis-à-vis organic growth providing owners the opportunity of repositioning themselves in an increasingly complex competitive landscape by joining forces with another firm, and thus produce valuable opportunities to formulate competitive strategies (Teerikangas, 2007). However, some takeovers may be termed as mergers for PR reasons, economic motives and even top management teams' pride (Reis, 2015). They may induce market entry or exit, may help improve cost efficiency and reduce competitive pressures (Klodt, 2002) hence each case will be unique presenting different sets of challenges, complexity and risks (Leepsa and Mishra, 2016).

The different elements of M&A have drawn considerable attention over the past thirty years yet evidence points to positive short-term returns for the seller with inconsistent returns to the buyer (Cartwright and Schoenberg, 2006). When defined in extreme terms such as the eventual liquidation then failure rates are under 20%, when defined as an inability to reach set financial goals reported failure rates can be high up to 80% (Reed S.F., 2007). Recent examples from corporate America evidences several "big" M&A deals that failed. In 2015 Microsoft wrote off 96% of the value of the handset business it had acquired from Nokia for USD 7.9Bn the previous year. Google unloaded the handset business it bought from Motorola for USD 12.5Bn in 2012 for 2.9Bn, HP wrote down USD 8.8Bn of its 11.1Bn Autonomy acquisition; and in 2011 News Corporation sold MySpace for a mere USD 35Mn after acquiring it for 580Mn just six years earlier (www.dealroom.net).

While companies may undertake the M&A route for multitude of reasons, studies often show that most M&A initiatives are driven by the quest for synergy achievements (Thompson, 2016). However, due to weaknesses in due diligence and valuation, synergy goes unrealized in many cases (Fiorentino and Garzella, 2015). Another major reason for M&A failure is not paying adequate attention to post integration plans especially pertaining to people and culture.

1.1. Due Diligence

Due diligence is simply an investigation, audit or review performed to confirm facts or details of a matter under consideration (www.invostopedia.com). Needless to say it plays a pivotal role in M&A and should therefore be managed effectively to ensure a higher probability of success (Fiorentino and Garzella, 2015; Bhagwanan and Grobbelaar et al., 2018). According to Tanure, Cancado et al. (2009) the accuracy of the due diligence will depend on the capital control, business segment and the cultural profile of each company and the negotiation stage tends to be unique for each case. For the due diligence to be productive and accurate, internal communication should be encouraged (Salakka, 2018) and a culture of knowledge transfer must be inculcated (J. Rosenbaum, 2009).

1.2. Business Valuation

Business valuation is at the core of M&A. It could be summed as the meeting-up of cash flows over time. In other words, the time it will take the buyer to recoup the cost of the investment (Snow, 2011). According to Roll (1986) hubris (pride of the managers) can play a big part in business valuation. The hubris hypothesis implies that managers seek to acquire firms for their own personal motives and that the pure economic gains to the acquiring company are not the sole or even the primary motivation and in fact managers may pay a premium for a firm that the market has already correctly valued. Quite obviously higher the premium, harder and longer the payback will be.

1.3. Cultural Integration

Since M&A involve two companies with two distinct cultures with people in the core of matters, it is reasonable to expect a culture conflict (Tanure, et al., 2009, Buono, et al., 2016, Savović, 2017). Cultural differences and resistance of employees are often mentioned as major barriers in achieving human or social integration (Dauber and Vrontis, 2012) and can be a value destroyer. Hence to maintain stability of the workforce cultural differences should be understood, planned and managed proactively (Fernandes, 2021) and due consideration paid to the need for pragmatic cross-cultural skills to bring about real change (Teerikangas, 2007).

Given that M&A are complex and full of challenges and risk, it is noteworthy to explore and understand the Sri Lankan cases being deliberated in this article since each will present its own unique challenges and outcomes. According to (Algama. 2020), mergers for companies incorporated in Sri Lanka is governed by part VIII of the Companies Act No. 07 of 2007 (as amended CA, 2007). Under the TOM Code (Takeovers and Mergers Code of 1995 as amended) a merger is defined as a transaction whereby the assets of two companies come under the control of one company. According to S. De Saram (2021) parties wishing to successfully proceed with M&A will need to fulfill several prior legal requirements and approvals from regulating bodies. These would be the likes of Colombo Stock Exchange, Public Utilities Commission of Sri Lanka, Telecommunications Regulatory Commission of Sri Lanka, Monetary Board of Sri Lanka, the Insurance Regulatory Commission of Sri Lanka and the Sri Lankan Board of Investment. The Consumer Affairs Authority Act (CAA Act) regulates anti-competitive practices for companies in Sri Lanka and may act against or put a stop to any M&A which led to anti-competition practices

2. STRATEGIC IMPORTANCE OF M&A

Companies consider M&A for a myriad of strategic reasons but empirical evidence and literature suggest that organizations expect to realize several typical objectives.

2.1. Competitive Advantage and Strategic Alignment

The theory of Strategic Alignment believes that for an organization to attain peak performance, its business strategy, resources and coordination must all be aligned in one and the same direction (David J. Collis, 1998), moving in tandem, making it difficult to separate and hard to copy (Galpin, 2018). Hence acquiring the right competence, capabilities and resources become of paramount interest and a key M&A objective.

2.2. Synergy Concept

Synergy is the concept that the value of two companies' combined will be greater than the sum of the separate individual parts and is often the driving force behind a merger (Arthur A. Thompson, 2016). The expected synergy can be attributed to factors such as increased revenues, combined talent and technology, and cost reduction. It is critical that synergy is expressed in measurable ways, and the inability to do so is a telltale sign of future difficulties (Bruner, 2004) likely to be ridden by mistakes and excessively costly (Chatterjee, 2007). A recent study by Fiorentino and Garzella, (2015) indicated three synergy pitfalls each having different likelihoods of achievement requiring high-level risk management approach: (1) The Mirage; a tendency to overestimate synergy potential, (2) The Gravity Hill; the underestimation of the difficulties in synergy realization and (3) Amnesia; a dangerous lack of attention to the realization of synergy.

2.3. Market Dominance and Power

One of the obvious reasons for M&A is to achieve higher market share at greater velocity to the organic growth route. Market dominance can potentially lead to market power and usually will trigger the attention of Monopoly and Competition authorities. The theory of Market power refers to a company's relative ability to manipulate the price of an item by manipulating the level of supply, demand or both and thereby control its profit margin without trading-off market share (Harrison, 2006), increase obstacles to potential new entrants into the market (Jamison, 2020) and place suppliers at the mercy of the organization (Wood and Wrigley, 2007).

2.4. Entry to Foreign Markets

Economies of scale, synergy, market share and reputation, shareholder wealth creation and empire building for managers have been identified as some key drivers to enter foreign markets (Tripathi, Sanjoy Sircar et al., 2015). With more markets opening and the convergence of digital technologies, cross-border M&A has gained traction since 1990 (Shimizu, Hitt et al., 2004; Buckley and Casson, 2009; Johanson and Vahlne, 2009). The dynamics of cross-border M&As are largely similar to those of domestic M&A but involve unique challenges given different economic, regulatory and cultural structures (Hofstede, 1980; House et al., 2002) (Shimizu, Hitt et al., 2004).

3. DISCUSSION ON RECENT M&A CASES IN SRI LANKAN CONTEXT

The author posits that Sri Lanka being country of small population and geo mass, highly competitive overcrowded industries with little room for differentiation may view consolidation as imperative over the organic route. ROI in capacity building will be slow as time taken to execute entry in to new markets/launch of new products, substantial marketing investment and the grave lack of trained resources may not make the organic route very attractive. This also means that small companies serving even small niche segments may be vulnerable for takeovers.

Sri Lanka has witnessed numerous cases of M&A over the years. Some of the notable ones have taken place within the overcrowded telecommunications industry. The acquisition of Suntel by Dialog Axiata in 2012 and acquisition of Celtel by Tigo (2008), Tigo by Etisalat (2013) and subsequently Etisalat by Hutch Lanka in 2018 comes to mind. These M&A have been primarily driven by ambitious synergy and market share objectives. The quick changing hands of Celtel to Tigo to Etisalat to Hutch is evidence that M&A are difficult and probability of failure is high. Telco industry also has been acquiring many start-ups and e-commerce businesses in the recent past. These are primarily vertical attempts towards the consumer (as in the case of SLT Mobitel & E-Channeling) or towards the supplier (as in the case of Dialog & H-One).

This article will also look at the M&A between several other Sri Lankan blue chips namely, ACL Cables & Kelani Cables, Gamma Pizzakraft & Keells restaurants (Pizza Hut operations in Sri Lanka), Softlogic Holdings & Odel/Cotton Collection, SS Holdings & RIL Property PLC (BreadTalk operation in Sri Lanka) discussed in detail and summarized in Table 1.

Table 1: Summary of M&A Cases in Sri Lanka

	Buyer/Seller	Industry	Objectives	Outcomes
1	ACL Cables PLC aquired Kelani Cables PLC in 1999	ACL PLC is the clear market leader in the Cable manufacturing industry with over 70% share between the 2 brands	Increase market dominance & Synergy realisation in manufacturing, logistics and distribution	Strong strategic and commercial fit. Successfully implemented a dual brand approach with focus on management autonomy and a structured approach to integration
2	Gamma Pizzakraft Lanka aquired the Pizza Hut SL franchise from Keells Restaurants in 2007	Gamma is the leader in the Quick Service Restaurants industry with the largest chain of restaurants in SL	Gamma was already a Pizza Hut franchisee in India and used M&A to enter a foreign market	Successfully implemented with the swift integration of employees to the new ownership and culture. Former management team continued with significant empowerment. Company has also moved to the Maldives market under the same management.
3	Dialog Axiata PLC aquired the wow.lk operations from Digital Commerce Lanka in 2012 and divested in 2019 to e-commerce giant daraz.lk	Dialog is largest telco operator in Sri Lanka with a dominant market share	Fast route to the e-commerce space during a time when e-commerce was at a nascent stage	It could be argued that this deal destroyed value instead of creating. Valuation of USD 3.4Mn for a fairly small operation & an unknown brand at the time seem irrational. Hasty due diligence and management hubris likely played a part in the premium paid by the buyer. Buisness model and gaps in operational set-up were also likely not in favour of Dialog
4	Softlogic Holdings acquired Odel in 2014 and Cotton Collection in 2019	Softlogic is one of Sri Lankas prominent conglomerates with investments in emegring markets. Company is the largest Fashion Retailer in Sri Lanka	Cement position and standing in the growing fashion retail space	A move that can be considered good strategic fit that will serve to strengthen Softlogics multi-brand, multi-channel approach in the fashion retail market. While the current economic downturn is not helping, once the Covid pandemic situation is under wraps and tourism returns to some semblance of normalcy Softlogic will likely begin to fully reap the benefits of these two deals.
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5	SLT Mobitel acquired E-Channeling in 2016	SLT Mobitel is the 2nd largest telco operator in Sri Lanka with govt backing.	Enter the e-commerce space using a well established ecommerce platform	This acquisition was seen by the industry as a reaction to market leader Dialog launching similar service Doc990. Even though the potetial to monetize the asset exists it is uncertain if this deal was more to appease management hubris than a real market requirement. However compared to Dialog/wow.lk deal the price paid for E-Channeling by Mobitel seem more reasonable.
6	Hutchison Telecommunications Lanka acquired Etisalat Sri Lanka operations in 2018	Hutchison is a challenger Telco brand in SL known as a strong value player especially in data.	Icrease market share through contigous coverage and better 4G services	The operating environment has not been favorable immediately post-acquisition with the Easter attacks in 2019 and the pandemic in 2020 & 2021 adversely impacting network and distribution mergers. Post-merger integration of cultures and people were also not fully devoid of conflicts and may have impacted performance. In this context all M&A objectives have not been realised
7	Dialog Axiata PLC aquired H-One Ltd leading provider of MS Solutions in 2021	Dialog is the largest telco operator in Sri Lanka with a dominant market share	Strengthen the already well entrenched dominant corporate & enterprise segemnt	Microsoft Solutions goes hand-in-hand with the segemnt & this acquisition looks to have strong commercial and strategic fit. Especially in the current pandemic driven economies where corporates large and small are fast focusing on digitizing their operations the results of this M&A is likely to be positive at least in terms of revenue synergies
8	SS Equity Holdings acquired the Bread Talk Lanka operations from RIL Prperty PLC in 2021	SS Equity associated with investor Shanker Somasundaram holds a diverse portfolio of investments	Purchase of undervalue asset to enter a new business space	RIL initially invested Rs. 400Mn on the business and disposed of it for Rs. 245Mn. Given that Bread Talk is a strong international brand the valuation seem rational. With some tweaks to the product offering and distribution model this would likely give the buyer positive results.

3.1. Acquisition of Kelani Cables PLC by ACL Cables PLC (1999)

Cable manufacturing and marketing in Sri Lanka is largely dominated by local companies and consists of 6 players. ACL Cables PLC is the largest manufacturer of cables in Sri Lanka having pioneered the industry in 1962. ACL holds 45% share and produce the widest range of cables in Sri Lanka. Kelani Cables was founded in 1969 and was incorporated as a quoted public liability company in 1973 and holds a 32% market share (Dissanayake, 2017)

ACL acquired KCL in 1999 and it served two primary objectives; achieve absolute market dominance using a dual brand approach catering to both B2C and B2B segments with two distinct value propositions and derive cost benefits through synergies around manufacturing, raw materials, logistics and credit controlling mechanisms amongst others (Dissanayake, 2017).

The acquisition of Kelani Cables by ACL is recorded as one of the most successful cases in Sri Lanka. Today after the acquisition of Kelani cables, ACL reports a consolidated market share in excess of 70%. One of the key contributory factors to achieving the set-out objectives is the successful implementation of the post-acquisition strategy to enhance the performance of Kelani Cables PLC focusing on integration of human resources, leadership and allowing management autonomy as per a structured plan (Dissanayake, 2017).

3.2. Acquisition of Keells Restaurants Lanka (Pizza Hut Sri Lanka Operations) by Gamma Pizzakraft Lanka (2007)

Pizza Hut is a brand owned by Yum! Brands operating a successful franchisee business model across the globe. Pizza Hut was the first international restaurant chain to be launched in Sri Lanka way back in 1993 by John Keells Holdings. After many years serving the urban upper-middle class primarily in the Western Province, in 2007 as a part of its portfolio rationalization initiative John Keells Holdings sold off the

Keells Restaurants business at an undisclosed amount to Gamma Pizzakraft, a New Delhi based national franchisee for Pizza Hut (https://www.sundaytimes.lk).

Gamma Pizzakraft a prominent franchisee of Yum! Brands in India considered this an opportune growth route away from the ultra-competitive restaurant industry in India. Gamma Pizzakraft approached the business objectively but with a give attitude prioritizing critical investments in assets, systems, management capabilities, brand and people development demonstrating strong commitment. Effective change management rallying the team together was evident.

The author having been a part of the management team in the unification and business development process post-acquisition believes that this M&A brought positive outcomes for seller, buyer and employees. While John Keells transferred equity smoothly, both the business and its other stakeholders thrived under the new ownership. Today having grown the business extensively with presence across most major cities in Sri Lanka, Gamma Pizzakraft holds a much-respected place in the corporate space and is also a sort after employer (http://dailynews.lk/2021/02/18/business/241846/gamma-pizzakraft-lanka-shines-great-place-work-awards). A similarity with the ACL and Kelani merger is witnessed at Gamma despite this being cross-border M&A. Both deals were successful as post-merger integration had been thought through and attention to people prioritized as a key success factor.

3.3. Acquisition and Divestment wow.lk by Dialog Axiata Group (2012 to 2019)

Dialog Axiata entered the e-commerce space by purchasing 26% of Digital Commerce Lanka (Pvt) Ltd (DCL) in 2012 at the price of USD 1.59Mn. DCL owned wow.lk (formerly known as Anything.lk – founded in 2011), one of Sri Lanka's pioneer e-commerce operators. Anything.lk was one of the early disrupters of the Sri Lankan retail space with a business model very novel at the time challenging the traditional communications and distribution architypes (http://archives.dailynews.lk/2012/12/11/bus01.asp).

The 2012 joint venture merged several e-commerce sites owned by Dialog at the time, including iBuy.lk and Tradenet.lk, into Wow.lk – ultimately making DCL Sri Lanka's largest daily deals site and online mall. Three years later in 2015 Dialog acquired 100% stake of DCL at an additional valuation of USD 1.8Mn (https://www.ft.lk/IT-Telecom-Tech/dialog-fully-acquires-wow-lk).

Dialog entered the market when it was at an embryonic stage contributing to less than 1% of all retail revenues. However, in 2019, four years after the full acquisition of DCL, Dialog decided to exit the e-commerce space by entering in to a strategic alliance with daraz.lk. (https://www.dailymirror.lk/recomended-news/Alibaba%E2%80%99s-Daraz-and-Dialog-Axiata-Sign-a-Strategic-Partnership-to-Grow-Digital-Commerce-in-Sri-Lanka).

Under this strategic partnership the management and business operations of wow.lk was integrated with Daraz Sri Lanka, re-directing visitors to wow.lk to daraz.lk. Daraz is part of global e-commerce giant Alibaba and presumably runs a business model more suitable for e-commerce benefitting both shoppers and seller partners, providing greater visibility for brands and a wider range of products to shop from (https://archive.ceylontoday.lk/print-more/46392).

Entering the space seemed strategically aligned to Dialog's Vision & Mission statements of offering "empowerment & enrichment of Sri Lankan lives through provision of technology enabled connectivity" (www.dialog.lk). The venture didn't live up to the expected synergistic goals likely caused by gaps in business model and the operational set-up. Dialog being a large organization may not have been ideally suited to manage a business that required quick on the move decision making and expertise in dealing with large volumes of physical goods that can become obsolete as well as logistics and after-sales challenges. Another question worth asking is if a fairly unknown brand like wow.lk was worth the price Dialog paid (USD 3.4Mn). Management Hubris could have played a big role in the original valuation of the business. The move destroyed value instead of creating.

3.4. Acquisition of Odel (2014) and Cotton Collection (2019) by Softlogic Holdings

The story of Odel, the iconic local retail fashion brand is a famous one. As told many times over, founder Otara Gunawardene started off selling factory surplus garments and apparel to family and friends off the back of her car back in 1980's (https://newsin.asia/story-otara-gunawardene-founder-iconic-colombo-store-odel/). It grew in stature and scale over the years becoming a chain of 20 stores across Colombo including the flagship mall in Alexander Place (www.odel.lk). Odel was floated as a PLC in 2010 becoming the first fashion retail business to be listed on the Colombo Stock Exchange (https://www.businesstoday.lk/article.php?article=2720).

In 2014 Softlogic Holdings acquired a strategic stake of 44.5% of Odel PLC for LKR 2.7Bn (https://www.ft.lk/TOP-STORY/softlogic-shakes-up-retail-biz-with-odel-buy/26-349800). The controlling shareholder of Odel at the time was Parkson Retail Asia Ltd of Malaysia, which held 47.46% stake. In the following months in 2014 Parkson Retail divested their entire shareholding in Odel to Softlogic Holdings at the price of Rs 22 per share amounting to a total of LKR 2.8Bn (https://www.ft.lk/Front-Page/parkson-decides-to-exit-odel/44-360889).

As reported in numerous corporate communications at the time Softlogic defined this acquisition as a perfect match and clear reflection of their strategy given the company's growing dominance in the branded lifestyle and retail business. Softlogic retail business comprises apparel brands such as Nike, Levi's, Giordano, Tommy Hilfiger, Aldo, Mango and Charles & Keith to name a few and consumer electronics giant Samsung (http://www.softlogic.lk). Subsequently, to complete the post-acquisition synergies Odel PLC acquired Softlogic Brands (Private) Limited for LKR 600Mn in 2015 (https://www.dailymirror.lk/67259/odel-acquires-softlogic-brands-for-rs-600mn).

Softlogic Holdings PLC's subsidiary Odel PLC later in 2019 acquired the popular local-grown fashion retail chain Cotton Collection Pvt Ltd for LKR 300Mn, a move that can be considered good strategic fit that will serve to strengthen its presence in the fashion retail market (https://www.themorning.lk/softlogic-acquires-cotton-collection-with-an-eye-on-retail-space-dominance/.) With a multi-brand, multi-channel business approach company plans to add more lifestyle brands and more retail space cementing themselves as the leader in premium retail shopping and lifestyle experience (https://www.businesstoday.lk/article.php?article=11259).

The acquisition of two well accepted fashion brands, Odel and Cotton Collection by Softlogic fits very well with the overall company strategic direction and will be a sure-fire approach to cement market dominance as well as derive operational synergies. While the current economic downturn is not helping, once the Covid pandemic situation is under wraps and tourism returns to some semblance of normalcy Softlogic will likely begin to fully reap the benefits of these two deals.

3.5. Acquisition of E-Channeling (Pvt) Ltd by SLT Mobitel (2016)

As confirmed by corporate announcements, SLT Mobitel (then known as Mobitel (Pvt Ltd), Sri Lankas second largest mobile telecommunication service provider, acquired at a price LKR 732Mn 87.6% stake of E-Channeling PLC owned by Senior Marketing System Asia PTE in Oct 2016 (https://www.dailymirror.lk/business-news/Mobitel-acquires-of-E-Channelling-as-voluntary-offer-closes/273-117034).
The company considered it a strategic investment to enhance Mobitel's position in the mobile market bringing the all-important health and medical service E-Channeling to its users and position Mobitel as a differentiated player with a wide and useful range of value-added service offerings (https://www.mobitel.lk/press-releases/mobitel-empowers-echannelling-take-digital-healthcare-new-heights).

According to company insider insights, the E-Channeling platform for all intentions and purpose is an e-commerce platform that can be used to develop many future revenue streams by adding other services to the platform. Hence the monetization options of the acquired platform can be quite substantial. Working together with other Sri Lankan telco players Mobitel has also the potential to take this platform to all Sri

Lankan mobile users through a range of new products and services not limiting to health and medical services.

E-Channeling PLC is the pioneer software developer and ICT service provider to the Healthcare industry. It is the first company in Sri Lanka to offer a complete ecommerce-based service and the first public quoted technology company. E-Channeling has consistently been part of the 100 top brands in Sri Lanka (https://www.echannelling.com/Echannelling/company).

Given the brand strength and the user profile of E-Channeling, the valuation of LKR 732Mn seem more rational than what Dialog paid for wow.lk (USD 3.4Mn) many years back. Mobitel can be expected to milk the brand further as more users embrace e-commerce for health care, but how they will go about monetizing the generic platform for other services remain to be seen. On the other hand, if Mobitel acquired E-Channeling as a reaction to (instead of an actual market need) the launch of Doc990 by rival Dialog (a similar healthcare platform) is worth pondering over.

3.6. Acquisition of Etisalat Sri Lanka by Hutchison Telecommunications Lanka (2018)

Hutchison Telecommunications Lanka (Hutch Lanka), a subsidiary of Hong Kong based CK Hutchison Group (CKHG), acquired and consolidated rival mobile network operator Etisalat Lanka from Emirates Telecommunications Group Company (Etisalat Group) in Dec 2018. The official announcement noted that upon completion of the sale CKHG will hold majority and controlling stake of 85% whilst Etisalat Group will hold 15% ownership of Hutch Lanka (https://www.telecomasia.net/content/hutch-lanka-completes-merger-etisalat-lanka/).

Being a horizontal merger, the primary objectives for Hutch Lanka was to strengthen its market position continuing the operation under the brand name Hutch and also reap operational synergies. The consolidation provided Hutch access almost overnight to a suite of critical assets including spectrum, large pool of subscribers and trained and experienced human resources (https://www.lankabusinessonline.com/interview-our-aim-is-to-provide-a-better-4g-experience-hutch-ceo/). Combined, the new network was expected to provide markedly better contiguous coverage to subscribers of both Hutch and Etisalat than they previously enjoyed (https://www.dailynews.lk/2018/12/13/business/171185/hutch-invest-us-200-mn-local-expansion). Contiguous coverage being a key industry driver the M&A was projected to accelerate customer acquisition as well as drastically reduce subscriber churn-out, two key challenges faced by Hutch at the time.

Operating under hyper competition and strict regulatory conditions, an organic path to scale up operations and acquire new subscribers of similar number would have taken Hutch several years. The M&A benefited all operators not only Hutch by reducing the hyper competition in the industry (https://www.fitchratings.com/research/corporate-finance/sri-lankan-telco-merger-to-relieve-competitive-pressure-30-04-2018).

Both companies possessed heavy asset bases and the due diligence process therefore was long drawn and the business dynamics and market conditions changed considerably during this time. The operating environment has not been favorable immediately post-acquisition with the Easter attacks in April 2019 followed by the pandemic in 2020 & 2021 adversely impacting network and distribution mergers. Post-merger integration of cultures and people were also not fully devoid of conflicts and may have impacted performance. In this context all M&A objectives have not been realized.

3.6. Acquisition of H One Ltd, Leading Microsoft Solutions Provider by Dialog Axiata (2021)

Dialog Axiata acquired 100% shares of H One (Pvt) Ltd in Jan 2021 through Dialog Broadband Network (Private) Limited (DBN), a fully owned subsidiary of Dialog.

The transaction was expected to be at a price between LKR 300Mn to LKR 350Mn but the final company announcement made no mention of the purchase price (https://www.dialog.lk/dialog-axiata-to-acquire-h-one-srilanka-leading-microsoft-solutions-provider).

The acquisition of H One was considered a move to enhance Dialog's already extensive suite of enterprise solutions and expected to facilitate acceleration of the digital transformation of Sri Lanka's enterprise sector. H One founded in 2008 as a subsidiary of Hidramani Group, is the largest reseller of Microsoft enterprise solutions in Sri Lanka with an annual turnover of approximately LKR 1.6Bn already delivering innovative solutions to many top corporates in the country.

Dialog being Sri Lankas' largest telecommunications services provider with an overarchingly dominant market share of the corporate & enterprise segment this acquisition looks to have strong commercial and strategic fit. Especially in the current pandemic driven economies where corporates large and small are fast focusing on digitizing their operations the results of this M&A will likely produce positive outcomes for Dialog.

3.7. Acquisition of BreadTalk franchise from RIL Property PLC by SS Equity Holdings Ltd (2021)

BreadTalk, a bakery brand founded in Singapore in 2000 has a network of owned bakery outlets in Singapore, PRC, Malaysia, Hong Kong and Thailand as well as franchised bakery outlets across Asia, Europe and the Middle East. BreadTalk was launched in Sri Lanka in 2012 by Foodbuzz (Pvt) Ltd, a subsidiary of RIL Property PLC with an initial investment of approximately LKR 400Mn. 9 years since launch and 10 stores later RIL Property announced the exit from the BreadTalk business in a market disclosure in March 2021. Adverse market conditions resulting from the Easter attacks as well as the ongoing pandemic were quoted as the reasons behind this decision. BreadTalk revenue in 2021 declined by 60% over 2020 due to the COVID-19 pandemic-induced lockdowns, racking up substantial before tax losses (https://www.dailymirror.lk/business-news/BreadTalk-closure-put-off-due-to-potential-investor-interest/273-208434).

Three months after the suspension of operations, SS Equity Holdings, backed by investor Shankar Somasundaram, purchased the entire equity of BreadTalk franchise for LKR 245Mn in June 2021 (https://www.ft.lk/front-page/Shankar-Somasundaram-buys-BreadTalk-Lankan-franchise-for-Rs-245-m/44-719641). As reported by RIL, the divestment is in line with the company's strategic investment activities that helps streamline its resources and business structure.

RIL held net assets of 260Mn at the time of the transaction and disposed of it for Rs. 245Mn. Given that Bread Talk is a strong international brand with strong revenue performance prior to Covid-19 crisis the valuation seems rational. With some tweaks to the product offering and distribution model this would likely give the buyer positive results.

4. CONCLUSION

Weighing in on the cases discussed in the article it can be expanded that each case had its unique set of challenges and outcomes. While some succeeded, some failed in meeting expectations reflected in the way the M&A have been negotiated, planned and executed.

- Organizations that had robust post-merger integration plans with attention to human resources performed better as witnessed in the cases of ACL/Kelani and Gamma/Keells. Both M&A were successful because they had a good post-merger integration plan that seemed to have been executed swiftly and efficiently making synergy realization a reality and achieving other M&A objectives easier due to the buy-in of employees.

- Organizations that executed the deal with a "give" attitude gained more than those that entered it with a "take" attitude (Martin, 2016). Martin goes on to observe that an acquirer can improve its target's competitiveness in four ways:

(1) by being a smarter provider of growth capital, (2) by providing better managerial oversight, (3) by transferring valuable skills and (4) by sharing valuable capabilities. This seem to be another key success factor for both ACL/Kelani and Gamma/Keells.

- Due diligence and valuation are lengthy, complex processes but critical to get right. Research suggests that ignorance of potential problems in an acquisition is one of the more common causes of failure in M&A. But learning about the target, the task of due diligence, is very challenging (Bruner 2004). The long drawn due diligence process of Hutch/Etisalat case impacted synergy calculation, synergy realization and investment recovery time. It is likely that Dialog/wow.lk deal failed due to inflated valuation even though it did seem to have strategic fit. Ignorance of potential problems during due diligence and hubris likely paid a role in the valuation.

- Strategic fit is a key success factor for M&A, like in the cases of Softlogic/Odel/Cotton Collection, Dialog/H-One. But as was witnessed in the same cases strategic fit alone is not adequate to make it work. Even though Chatterjee (2007) says same industry M&A are less risky the Telco experience seem to tell a different story.

- Synergy (especially revenue) realization may not materialize as expected due to inaccurate forecasts, ill-timing, unforeseen external environmental challenges as in the case of both Hutch/Etisalat and Softlogic/Odel/Cotton Collection. Chatterjee (2007) and Studer and Thomas (2016) reiterates that cost reducing synergies are more readily quantifiable while revenue enhancing synergies are dependent on external factors and hence company would have less control over realization.

The economic impact of the 2019 Easter attack followed by the crippling effects of the global Covid-19 pandemic has delivered a double whammy across most industries in Sri Lanka making M&A execution even more difficult. Within such a context we can expect results from the more recent M&A to be delayed beyond the fact that M&A objectives by design tend to be long term.

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