



**Mergers and Acquisitions Performance within the Telecommunications, Media and
Technology Sector: Case of JSE Listed Companies.**

Thesis

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TABLE OF CONTENTS

PLAGIARISM DECLARATION 2

ABSTRACT 2

LIST OF FIGURES AND TABLES 4

GLOSSARY OF TERMS 9

ACKNOWLEDGEMENT 10

1 INTRODUCTION 11

 1.1 Research Area..... 11

 1.2 Problem Statement 13

 1.3 Purpose and Significance of the Research..... 15

 1.4 Research Questions and Scope..... 17

 1.5 Research Assumptions 19

2 LITERATURE REVIEW 19

3 RESEARCH METHODOLOGY..... 65

 3.1 Research Approach and Strategy 65

 3.2 Data Collection, Frequency and Choice of Data 77

 3.3 Sampling..... 77

 3.4 Data Analysis Methods 78

 3.5 Research Reliability and Validity..... 78

 3.6 Limitations 78

4 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION 80

5 RESEARCH CONCLUSIONS..... 99

6 RECOMMENDATIONS FOR FUTURE RESEARCH..... 104

REFERENCES..... 104

APPENDICES..... 108

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ABSTRACT

Telecommunications, Media and Technology (TMT) sector also known as the Information, Communication and Technology (ICT) sector continues to grow in most of the global economies including South Africa. Growth within the sector is attributed to constantly emerging start-up and small micro medium enterprises, adding more competition and forcing incumbents to change the way they do business. Many companies struggle to adapt quickly to rapidly changing technologies that often disrupts existing markets and sometimes introduce new markets. Given TMT sector dynamics and challenges, small and large companies within the sector have recently started embracing mergers and acquisitions (M&A) as a growth and defence strategy to ensure that they remain relevant, retain existing markets, expand and venture into new markets in order to continue to create and sustain shareholders value.

According to Institute of Management Accountants (1997), the linkage between strategy and value creation can be summarized by two simple laws of value creation; the first law is that management must create value for shareholders; and the second law is that all other stakeholders should also be satisfied in a way that contributes to shareholders value; and the company's ability to continue to attract capital by providing incremental value to shareholders is exactly what will allow it to continue to provide attractive products to its customers, attractive employment to its staff, and opportunities for its suppliers. M&A strategies should be executed with the same objective in mind to ensure shareholders value creation. This study investigated M&A performance within the TMT sector in South Africa to understand if they are creating shareholders value given the fact that some of the M&A transactions have failed in the past.

The main objective of this research is to assess M&A performance and impact on shareholders value. The study is using the event study methodology for short term performance assessment, and accounting methods or financial ratios for long-term performance assessment. The study found that JSE listed companies operating within the TMT sector in South Africa have shown a great appetite for M&A; and selected companies for this research have concluded more than two acquisitions between 2005 and 2013 period. The study found that 55% of the 45 M&A deals announcements within the TMT sector created short-term value for shareholders using event study methodology with 21 days event period. However, 45% M&A transactions produced negative statistical significant Cumulative Abnormal (CAR) returns. The study also found that selected companies key financial

indicators used to assess long term shareholders value post acquisitions were higher and positive on majority of the acquisitions. The study concluded that ultimately TMT sector M&A in South Africa creates value for shareholders in the long term.

LIST OF FIGURES AND TABLES

Figure 1-1: Adapted from (Bruner, 2002) Event Studies Long-Term Performance Results

Figure 1-2: Global TMT M&A 2007-2013, Source: Mergemarket (2013)

Figure 1-3: Global TMT sub-sector Breakdown, Source: Mergemarket (2013)

Figure 1-4: TMT Sector Revenues, 2006-2010, Source: Booz & Company (2010)

Figure 1-5: Key South African Economic Indicators, Source: Savings Institute (2013)

Figure 1-6: Percentage of Jobs created in the TMT/ICT sector (2003 – 2010) in South Africa, Source: FDI Intelligence, FEM Research (2011)

Figure 1-7: IMF Emerging Markets Economic Growth Rates Forecasts, Source IMF (2012)

Figure 1-8: CFA Institute Motives for Mergers, Source CFA Institute (2013)

Figure 1-9: Naspers highest P/E ratio in 2013, Source: Profile Data (2013)

Figure 1-10: Event Study Time Line, Source Financial Modelling, Simon Benninga (2008)

Figure 1-11: Event Study of ITS Holdings Acquisition [Event Date: 01 June 2009]

Figure 1-12: Adapt IT Share Price and Key TMT JSE Index's Performance, Source: McGregor BFA

Figure 1-13: MTN Group Share and Key TMT Indexes performance, Source: McGregor BFA

Figure 1-14: Telkom Group Share and Key TMT Indexes Performance, Source: McGregor BFA

Figure 1-15: Naspers Share Price and Key TMT Indexes Performance, Source: McGregor BFA

Figure 1-16: Pinnacle Holdings Share Price and Key TMT Index Performance, Source: McGregor BFA

Figure 1-17: EOH Share Price and Key TMT Index Performance, Source: McGregor BFA

Figure 1-18: Convegenet Holdings Share Price and Key TMT Index performance, Source: McGregor BFA

Figure 1-19: Datatec Share Price and Key TMT Index Performance, Source: McGregor BFA

Figure 1-20: Mustek Share Price and Key TMT Index performance, Source: McGregor BFA

Figure 1-21: Business Connexion Share Price and Key TMT Index Performance, Source: McGregor BFA

Figure 1-22: JSE All Share Index and TMT sector Indexes Performance, Source: McGregor BFA

Figure 1-23: Adapt IT, Datatec, EOH, Naspers and MTN Group Share Price Performance Comparison, Source: McGregor BFA

Figure 1-24: Business Connexion, Convegenet, Mustek, Pinnacle Holdings and Telkom Group Share Price Performance Comparison, Source: McGregor BFA

Figure 1-25: JSE SENS Example, Source: McGregor BFA

Figure 1-26: Event Study of EOH BI Planning Services [Event Date: 03 January 2012]

Figure 1-27: Naspers and MTN Group in the Top 10 Most Subscribed Stocks by Fund Managers, Source: Profile Data (2013)

Figure 1-28: Top 10 Largest JSE Listed Companies by Market Capitalisation, Source: Bloomberg (2012)

Figure 1-29: Top 10 Largest JSE Listed Companies by Market Capitalisation, Source: Bloomberg (2012)

Figure 1-30: OLS Regression for EOH 126 Observations for 05 July 2011 Event Date

Table 1-1: Selected JSE Listed TMT Sector Companies

Table 1-2: Adapt IT Acquisitions, Source: McGregor BFA JSE SENS

Table 1-3: AdaptIT M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-4: MTN Group Acquisitions, Source: McGregor BFA JSE SENS

Table 1-5: MTN Group M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-6: Telkom Group Acquisitions, Source: McGregor BFA JSE SENS

Table 1-7: Telkom Group M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-8: Naspers Acquisitions, Source: McGregor BFA JSE SENS

Table 1-9: Naspers M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-10: Pinnacle Holdings Acquisitions, Source: McGregor BFA JSE SENS

Table 1-11: Pinnacle Holdings M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-12: EOH Acquisitions, Source: McGregor BFA JSE SENS

Table 1-13: EOH M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-14: Convergenet Holdings Acquisitions, Source: McGregor BFA JSE SENS

Table 1-15: Convergenet Holdings M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-16: Datatec Acquisitions, Source: McGregor BFA JSE SENS

Table 1-17: Datatec M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-18: Mustek Acquisitions, Source: McGregor BFA JSE SENS

Table 1-19: Mustek M&A Strategies, Source: McGregor BFA JSE SENS

Table 1-20: Business Connexion Acquisitions, Source: McGregor BFA JSE SENS

Table 1-21: Business Connexion M&A Strategies: Source: McGregor BFA JSE SENS

Table 1-22: 45 M&A Transactions with 21 Days Event Period (-10, 0, +10) Cumulative Abnormal Returns Results

Table 1-23: Adapt IT Event Study Results

Table 1-24: AdaptIT Economic Value Add and Financial Ratio, Source: McGregor BFA

Table 1-25: Adapt IT Event Study Results

Table 1-26: MTN Key Financial Indicators, Source: McGregor BFA

Table 1-27: Telkom Group Event Study Results

Table 1-28: Telkom Group Key Financial Indicators, Source: McGregor BFA

Table 1-29: Naspers Event Study Results

Table 1-30: Naspers Key Financial Indicators, Source: McGregor BFA

Table 1-31: Pinnacle Holdings Event Study Results

Table 1-32: Pinnacle Holdings Key Financial Indicators, Source: McGregor BFA

Table 1-33: EOH Event Study Results

Table 1-34: EOH Key Financial Indicators, Source: McGregor BFA

Table 1-35: Convergenet Holdings Event Study Results

Table 1-36: Convergenet Holdings Key Financial Indicators, Source: McGregor BFA

Table 1-37: Datatec Event Study Results

Table 1-38: Datatec M&A Key Financial Indicators, Source: McGregor BFA

Table 1-39: Mustek Event Study Results

Table 1-40: Mustek M&A Key Financial Indicators, Source: McGregor BFA

Table 1-41: Business Connexion Event Study Results

Table 1-42: Business Connexion Key Financial Indicators, Source: McGregor BFA

GLOSSARY OF TERMS

M&A – Mergers and Acquisitions

TMT- Telecommunications, Media and Technology

ICT – Information, Communication and Technology

IT – Information Technology

JSE – Johannesburg Stock Exchange

BEE - Black Economic Empowerment

BBEE- Broad-Based Black Economic Empowerment

ICASA- Independent Communications Authority of South Africa

ECA – Electronic Communications Act of South Africa

USA- United States of America

ANC- African National Congress

NPC – National Planning Commission

NDP- National Development Plan

DOC- Department of Communications

AR - Abnormal Returns

CAR - Cumulative Abnormal Returns

JSE SENS - Johannesburg Stock Exchange Security News Service

EVA - Economic Value Add

EPS - Earnings per Share Ratio

DPS - Dividends per Share Ratio

ROE - Return on Equity Ratio

P/E – Price/Earnings Ratio

D/E - Debt/Equity Ratio

ZAR- South African Rand

GBP- British/United Kingdom Pound

SME- Small Medium Enterprise

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1 INTRODUCTION

1.1 Research Area

This research study evaluates and assesses M&A performance within the TMT sector in South Africa given the increase in number of M&A deals in the past 10 years (2005 and 2013 period). Value is created when management generates revenues over and above the economic costs to generate these revenues; and costs come from four sources: employee wages and benefits; material, supplies, and economic depreciation of physical assets; taxes; and the opportunity cost of using the capital (Institute of Management Accountants, 1997). Furthermore, Institute of Management Accountants (1997) argued that value is only created when revenues exceed all costs including a capital charge and the value accrues mostly to shareholders because they are the residual owners of the firm. Since mergers and acquisitions (M&A) involves huge finance costs on acquiring companies, it is important to evaluate and assess if acquiring companies regain the costs incurred at the expense of shareholders value.

For the past 10 years, TMT sector companies have increasingly adopted mergers and acquisitions (M&A) strategies in a bid to create more value for their shareholders. By employing effective M&A strategies, TMT sector companies can effectively address challenges that have direct impact on their revenues such as disruptive innovation, globalisation or internationalisation to gain access to new technology, skills and markets. Moreover, technology start-up companies can be acquired by medium to large companies; similarly small-medium companies can grow through M&A into large companies by growing their revenues and eventually list on the JSE.

Deloitte (2014) argued that the level of competition and technology industry disruption is extremely high and due to the accelerating pace of technological progress, there is relentless pressure on companies to constantly innovate at both the consumer and enterprise levels to survive; and large incumbents looking for new companies to add to their portfolio and grow revenues will likely need to stay alert to companies working on the next disruptive innovation. Furthermore, Deloitte (2014) also argued that M&A drives a constant search for new start-ups, fairly young, well-run small companies that are working on next-generation technologies. TMT sector in South Africa is heavily influenced by global ICT trends and

remains highly dynamic and volatile due to constant changing environment. This also compels South African TMT sector companies to continue to invest in new technologies and infrastructures to stay relevant in order sustain and increase revenues, and other companies seek to achieve this through M&A.

Most global TMT sector markets are near saturation and world largest dominant players such as Apple, Microsoft, IBM, Facebook, Vodafone, Oracle, SAP, Google and South African TMT sector companies such as MTN Group, Naspers, Vodacom, Telkom and EOH have accumulated enough cash mostly generated through organic growth during the booming periods in the past two decades. Nonetheless, these technology giants have already spent lot of cash on M&A, making news headlines in M&A history for the past 10 years, inspiring other companies within the sector to also adopt M&A.

Deloitte (2014) suggested that technology companies may increasingly consider redeploying their cash reserves to reinvest in growth; M&A and other partnering arrangements are among specific strategies to do this. Companies more likely to continue to make acquisitions are companies with enough cash reserves and a good credit rating scores that allows them to finance M&A using a combination of cash, debt and equity. South African TMT sector is set to continue to embrace M&A and it is imperative to understand if whether these M&A deals are creating value for shareholders; and it is the main objective for this study.

This study evaluates and assesses M&A performance and impact on shareholders value within the TMT sector in South Africa given the increase in number of M&A deals in the past 10 years. The research studied both small and large M&A transactions undertaken by JSE listed companies during 2005 and 2013 period. Ten listed JSE companies within the TMT sector were selected as case studies and 45 transactions were evaluated using the event study methodology for short term performance. Overall long term performance was assessed, evaluated and analysed using selected financial ratios, economic value add and the market value add methodologies as key shareholders value performance indicators. A short survey was also conducted with M&A Executives for companies selected for the study that have agreed to participate in the survey and have been included as appendix. Moreover, this study also looked broadly at M&A issues and challenges, selected companies business strategies, M&A strategies, and other relevant M&A topics covering all critical M&A aspects within the TMT sector. The study concluded with the benchmark study and analysis comparing

individual companies share prices performance with the overall JSE index and TMT sector indexes performances for the 2005 and 2013 period.

1.2 Problem Statement

The aim of the study is to investigate if whether M&A create shareholders value within the TMT sector in South Africa over short-term and long-term period. TMT sector companies enjoyed massive organic growth in the past due to few competitors, lot of new software and hardware inventions and huge untapped global telecommunications markets introduced by mobile cell phones. To date, the global TMT sector has many players and lots of new emerging companies coming on board, putting incumbents under pressure to sustain and meet their revenue targets in order to continue to create shareholders value. Traditionally, companies operating in sectors such as mining, chemicals, manufacturing, energy and banking have been dominating M&A activities in a bid to create more value for their shareholders. For the first time since 2006, TMT sector deals overtook energy, mining and utilities sectors with a value of US\$426.7 billion accounting for 23% of global M&A activity in 2013, up from 14.5% in 2012 (Mergemarket, 2013). Clifford Chance (2012) argued that companies within the TMT sector have excess cash on their corporate balance sheets and limited prospects for organic growth; and businesses within this sector have the appetite to do deals in order to achieve growth targets. In addition, TMT sector companies are faced with declining revenues due to increasing competition and new policy and regulatory laws; and are engaging in M&A seeking new revenues streams in order to continue to create value for their shareholders.

In South Africa, more TMT sector companies are now adopting M&A and spending huge amount of cash and some acquiring debt to purchase other companies that enables them to offer more innovative value added services to their customers in order to diversify their sources of revenues. M&A involves huge finance costs and has a direct impact on shareholders value of acquiring companies. M&A can create shareholders value if successfully executed; and can also destroy shareholders value if not successfully executed. The biggest problem is that, M&A can result in a failure and destroy shareholders value due to a number of reasons such as overpaying for targets and poor integration strategies post acquisitions. Many studies also found that some M&A transactions fail to create shareholders

value. Moreover, studies also found that shareholders of acquiring firms lose the most compared to shareholders of the target companies that usually gain the most. According to Pettit and Ferris (2013), Kengelbach and Roos, from the Boston Consulting Group (BCG) (2011), studied approximately 26,000 transactions completed between 1988 and 2010; and showed that the average share price performance over a seven-day window after the announcement date was 15.5 % for the target but -1.0 % for the acquirer. BloombergBusiness (2007) argued that many of the worst deals have come about because management tried to use M&A to fix a fundamental business problem, such as a market that faces a terminal regulatory or technological threat. Moreover, BloombergBusiness (2007) suggested that the Technology and Telecommunications sectors are rife with bad deals because revolutionary technological and regulatory change provoked fear and uncertainty, leading executives into bad decisions. BloombergBusiness (2007) explained this referring to AT&T's which tried to move from the traditional landline phone business which was dying into the newer and more promising broadband internet and cable businesses; and in the end M&A proved to be a poor route for that transition; and years later, Verizon, one of AT&T competitor had more success by expanding from telecom into cable and broadband via large capital investments and relying on organic growth. Furthermore, AT&T, toymaker Mattel (MAT) nearly went bankrupt using M&A as a way to keep pace with technology; and the company spent billions to buy software and game publisher the Learning Co followed by a string of disappointing profit results, which led to the ouster of former Chief Executive Officer Jill Barad (BloombergBusiness, 2007).

In South Africa, this problem was also experienced by Telkom Group shareholders. Telkom Group is an example of a company that destroyed shareholders value through acquisitions. Telkom acquired a 75% stake in Multi-Links, a Nigerian Telecommunications Agency for \$280m in 2007; and two years later spent an additional \$130m on the remaining 25%. Later on Multi-Links has cost Telkom R5.1bn in impairment losses after an investment of \$410m (R2.8bn). According to Frost and Sullivan ICT industry analyst Vitalis Ozianyi (2011), poor due diligence, market and technology research into the Nigerian market led to the company's poor performance. Moreover, Frost and Sullivan ICT industry analyst Protea Hirschell (2011) suggested that Telkom appears to have over invested in Mutli-Links in the hopes of capturing the high growth telecoms market in the country.

Given the fact that acquisitions can destroy shareholders value, and the increased appetite for M&A as a growth strategy within the TMT sector in South Africa; it is imperative to investigate if M&A are creating shareholders value for acquiring firms considering the fact that some of the M&A transactions destroy shareholders value.

1.3 Purpose and Significance of the Research

The purpose of this study is to investigate if whether M&A create value for shareholders within the TMT sector in South Africa. It evaluates whether, in the short-term and long-term, acquiring companies within the TMT sector created or destroyed shareholders value. The short-term performance assessment is achieved by calculating the Cumulative Abnormal Returns (CAR) using 21 days event period. Long-term performance assessment is achieved by evaluating pre-acquisition and post-acquisition financial performance using key financial indicators or ratios, market value add (MVA) and economic value add (EVA) methodologies.

The research adopted the case study approach due to limited number of JSE listed TMT sector companies engaging in M&A activities with credible data for analysis. Case studies also made it possible to investigate M&A key drivers, unique M&A characteristics, issues or challenges and opportunities within the TMT sector instead of a general M&A study. Despite the fact that there is a lot of literature already written on M&A performance evaluation and assessment with regards to shareholders value creation; very few literatures have focused on specific sectors performances. In South Africa, there are no studies of M&A performance evaluation with regards to shareholders value creation focussing on the TMT sector that have been undertaken except for more general M&A studies. This study contributes to the existing knowledge on the impact of M&A on shareholders value. In addition, the study also covers other related matters associated with M&A that can help TMT sector companies to successfully execute M&A strategies and minimize M&A failure to avoid destroying shareholders value.

This study is significant due to the fact that TMT sector is highly competitive and dynamic, constantly changing, characterised and driven by technological innovation compared to other sectors such as the banking and mining which are more stable and predictable. M&A dynamics within the TMT sector differs with M&A dynamics in other sectors such as banking

or mining. For example, new entrant threat is very minimal within the banking sector. To set up a new bank requires minimum capital to comply with the Reserve Bank and also the operating license from the government. Similarly it is also not easy to set up a new mining company which is often pre-empted by exploration exercise and feasibility studies. However, within the TMT sector it is easy for a company to launch a new product; and few months later have a competitor with the same product which makes M&A a bit more complex. Musvasva (2013) argued that each economic sector has its own unique characteristics that impact and influences the outcome of its operations and narrowing down the study to a specific sector provides results that are accurate and economic sector specific. This study main objective is to obtain results that are accurate and TMT sector specific. The study is based on ten selected companies and 45 M&A transactions conducted by selected companies in order to pay attention on M&A challenges and opportunities within the TMT sector.

TMT sector companies are also constantly faced with a choice to either invest internally to grow organically through innovation or acquire other companies to bring external technology in-house to speed up the time to market the new products. This study will reveal the TMT sector M&A performance with regards to shareholders value and assist companies to choose carefully either to grow organically or through M&A. Deloitte (2014) argued that since the pace of technology change is so rapid, it is getting more and more difficult to predict where the industry may be in two years; let alone five; and to hedge their bets, some technology companies are starting to pre-emptively buy start-ups or small-to-medium niche players in case the products or technology they offer become the next “hot” thing and this further complicates the TMT sector M&A strategy execution. Furthermore, Deloitte (2014) argued that with the increase in cross-sector deals it is important to remember that convergence can add complexity to M&A process; acquiring and integrating companies with different revenues and/or business models can be challenging and this is an indication that an acquisition can end up destroying shareholders value hence the need for a study to investigate this. This study is only focussing on the performance of M&A from acquiring or bidding companies perspective because many studies have already found that shareholders of target firms benefit the most in most mergers and acquisitions transactions compared to shareholders of acquiring or bidding firms. Focus on acquiring firms is to assess if acquiring firms are able to successfully integrate target firms and whether it also translate into shareholders value creation given the dynamics within the TMT sector.

To create value, management must have a deep understanding of the performance variables that drive the value of the business (Institute of Management Accountants, 1997). TMT sector executives who choose M&A as a growth strategy need to also understand the overall impact of M&A performance on shareholders value within the sector. Board of directors and management teams of companies within the TMT sector can benefit from the study which reveals why companies within the TMT sector are adopting M&A, different M&A strategies, M&A challenges and opportunities. Furthermore, TMT sector companies can draw lessons from the study in order to employ growth strategies using M&A to grow into large companies and eventually qualify for listing on the JSE Main board; and prevent listed companies from de-listing. Companies listed on JSE Alternative board can also draw lessons from the study in order for them to grow their revenues and market capitalisation to qualify for listing on the JSE main board.

Small, micro and medium companies will be able to understand how they can achieve growth through M&A by acquiring other small, micro medium companies or start-up companies where there are synergies. Large organisations will also be able to understand how they can use M&A to enter new markets, retain and consolidate existing markets. Other stakeholders such as TMT sector financial or equity analysts and industry analysts can also benefit from the study.

In a nutshell, investors want to invest in an organization that will give them a return on investment (ROI) in a form of improved annual revenues through dividends and increase in share prices and this is the only way which value created eventually flows into the hands of shareholders. This resonates well with the purpose and significance of this case studies research which aims to investigate M&A performance impact on shareholders value given the TMT sector dynamics and high failure rate of M&A in the past.

1.4 Research Questions and Scope

The study main research question is to investigate if whether M&A within the TMT sector in South Africa creates value for shareholders or not. Hypotheses were also derived from the research main question “Do Mergers and Acquisitions within the TMT sector in South Africa

create shareholders value?" The question was applied in short-term and long-term performance evaluations.

Hypotheses (Short-Term Performance Evaluation)

H0 (Null Hypotheses) = M&A within TMT sector in South Africa creates shareholders value in a short-term period.

H1 (Alternative Hypotheses) = M&A within TMT sector in South Africa does not create shareholders value in a short-term period.

Hypotheses (Long-Term Performance Evaluation)

H0 (Null Hypotheses) = M&A within TMT sector in South Africa creates shareholders value in long-term.

H1 (Alternative Hypotheses) = M&A within TMT sector in South Africa does not create shareholders value in long-term.

The scope of this research is limited to ten selected JSE listed companies operating within the TMT sector. Selected companies have concluded minimum two M&A transactions during 2005 and 2013 period. Out of 34 listed TMT sector companies on the JSE for 2005 and 2013 period; only 10 companies have conducted minimum two M&A transactions between 2005 and 2013 period with accurate and verifiable transactions announcements dates and data for analysis. M&A transactions without unobtainable announcements dates, complete data set for defined event periods from McGregor BFA database, overlapping with other M&A transactions were excluded from the study. After screening M&A transactions for 2005 and 2013 period, ten final selected companies were MTN Group, Telkom Group, Adapt IT, Business Connexion, Naspers, Pinnacle Holdings, EOH, ConvergeNet, Datatec and Mustek.

This study only evaluates and assesses M&A performance pertaining to shareholders value creation from selected acquiring company's perspective only. The study also cover M&A in general, global M&A within the TMT sector, TMT sector analysis, selected companies analysis including their business strategies and M&A strategies, TMT sector impact on development in South African economy, and other relevant topics relating to TMT sector M&A that play critical role to ensure shareholders value creation.

1.5 Research Assumptions

The study was based on the following assumptions:

- The primary reason why companies engage in M&A is to maximize shareholders value.
- JSE stock market is efficient and stock prices incorporate all relevant information that is available to market traders including M&A Announcements.
- Shareholders value is created by maximizing company profits which are reflected on the company share price increase and increased dividends pay-out to shareholders.
- Share price data for selected companies, JSE index, TMT sector indexes obtained from McGregor BFA database are accurate.
- Economic Value Add, Market Value Add and Financial Ratios values obtained from McGregor BFA database have been accurately calculated.

2 LITERATURE REVIEW

South African Studies Findings

In South Africa there is dearth of literature on performance of mergers and acquisitions with regards to shareholders value creation focusing on the TMT sector. Few studies on mergers and acquisitions performance were published. Wimberley and Negash (2004), investigated mergers and acquisitions on the JSE listed companies and found that the cumulative abnormal returns (CAR) for the 36 months after the announcement of an event was -10, 5% significant, meaning that M&A failed to create positive abnormal returns for shareholders in long-term period. Moreover, the investigations found that the largest negative CAR is for the period 13 months to 24 months after the announcement of the event; and concluded that the method of payment did not have a significant effect on the results and the results were in line with the findings in USA and UK. Smit and Ward (2007) found that shareholders of acquiring companies do not earn statistically significant negative or positive abnormal returns around announcement dates for all their selected event windows. Jager (2008) using 12 cross-border mergers and acquisitions into Sub-Saharan Africa by listed JSE companies between 2000 and

2007 period; found that there was statistically significant negative average abnormal returns around -10% within the medium and long-term after the announcement date. Kyei (2008) concluded that large acquisitions had statistically no impact on the long-term share price returns of JSE listed acquiring companies. Aves (2001) found that mergers and acquisitions can destroy shareholders value based on the case study of a JSE listed IT company called Spicer Holding Ltd which embarked on an aggressive acquisition programme. Spicer Holding Ltd made three local acquisitions namely Zervos, Technicare, and TCM in 1999 with deals totalling R356 million; and also went offshore and purchased Swedish business Inter-IT Konsult for R60 million in 2000 during the booming global IT sector period (Aves, 2001). Problems started after the company acquired a UK based MIS Corporate Defence Solutions (MIS-CDS); and same year they also announced a merger with an unlisted South African company called IQ Business Group. Market anticipated a group with a market capitalisation of R1, 4 billion after the merger and its share price climbed from 158c to 215c by December 2000 (Aves, 2001). Moreover, in 2001, Spicer Holdings issued a profit warning which was a sign that some of its operations were in trouble; and during the due diligence process of a proposed merger between Spicer Holdings and IQ Business Group it became clear that there were problems with its UK operation MIS-CDS with allegations of gross irregularities at senior management level; the Managing Director was subsequently dismissed and these findings negatively affected the proposed merger valuations and before the official announcements of the merger discussions being called off (Aves, 2001). As a result Spicer Holdings share price declined by 17% to 44 cents per share; and later it was announced that the merger was cancelled and its share price declined to 3 cents per share from as high as R2 per share for the previous two years (Aves, 2001). The Spicer Holdings M&A case is an example of how shareholders value can be destroyed when the M&A strategy is poorly executed. According to the results obtained from the study by Makhele (2013) which was also based on JSE listed companies; acquiring firms tend to experience slightly improved performance after completion of the acquisitions when using traditional accounting measures. The study investigated 336 acquisitions occurred during 2000 and 2011 and found that acquiring firms experience significantly deteriorating Economic Value Add after the completion of acquisitions; but the improved operating performance is wiped out by capital costs of the large premiums paid to the target firm, creating no real economic gains to the acquiring firm,s shareholders (Makhele, 2013). The purchase price of target companies have huge impact on shareholders value and acquiring companies need to adequately estimate the

price of an acquisition based on synergies and value to be created post integration to avoid paying excessive premiums at the expense of shareholders value.

Halfar (2011) using a sample of 29 JSE listed companies, found that on average, mergers and acquisitions destroy value within two years post-acquisition and there is evidence that acquiring firms creates value in the third year after the acquisition. Halfa (2011) concluded that mergers and acquisitions are value destroying in the first one to two years after the acquisitions announcements date when considering acquiring company share price performance as well as intrinsic value creation. Musvasva (2013) concluded that M&A do not result in any statistically significant increase or decrease in corporate performance within the first financial year post M&A based on the financial services sector M&A study. Nagan (2008) found that share price correlates well with EVA for the banking sector and not for the retail sector and that there was no correlation between EVA and other common performance measures such as Return on Equity, Price/Earnings and Earnings Per share. Judging by the results found by other studies in South Africa, it is clear that M&A are quite complex and do not always create value for shareholders especially within the short term.

Non-South African Studies Findings

A published meta-study on post-acquisition performance research that included 44 acquiring firms abnormal share price return event studies concluded that on average acquiring firms earned no abnormal share price returns post acquisition (Bruner, 2002). Slomp (2009) using a sample of 124 M&A announcements by SPACs(Specified Purpose Acquisition Companies) which have gone public since 2003,found that such announcements, on average, create (ex-ante) value for the SPAC's shareholders. Furthermore, for their full sample, they found that an average abnormal one-day return was 1.33%. Furthermore, they found that when the event period is extended to three days surrounding the announcement there was average Cumulative Abnormal Return of 2.60 %. For the sub-sample of completed M&A transactions they found an average medium-term Cumulative Abnormal Return of 14.86%, measured from the day after the IPO to the day on which the M&A transaction is completed.

Table 2-1 : Bruner (2002) event studies reporting long-term share price returns to acquirers

Study	Cumulative Abnormal Returns (CAR)	Sample Size	Sample Period	Event Window (Days)	Notes
Mandelker (1974)	-1.32%	241	1941-63	(0,365)	Successful bids only
Dodd & Ruback (1977)	-1.32%	124	1958-78	(0,365)	Successful bids only
	-1.60%	48		(0,365)	Unsuccessful
Langetieg (1978)	-6.59%*	149	1929-69	(0,365)	Successful bids only
Asquith (1983)	-7.20%*	196	1962-76	(0,240)	Successful bids only
	-9.60%*	89		(0,240)	Unsuccessful
Bradley, Desai & Kim (1983)	-7.85%*	94	1962-80	(0,365)	Unsuccessful
Malatesta (1983)	-2.90%	121	1969-74	(0,365)	Whole Sample
	-13.70%*	75		(0,365)	After 1970
	-7.70%	59		(0,365)	Smaller Bids
Agrawal, Jaffe & Mandelkier (1992)	-10.26%*	765	1955-87	(0,1250)	
Loderer & Martin (1992)	1.50%	1298	1966-86	(0,1250)	
Gregory (1997)	-18%*	452	1984-92	(0,500)	
Loughran & Vijh (1997)	-14.20%	434	1970-89	(0,1250)	Merger
	61.30%*	100		(0,1250)	Tender
	-0.10%	100		(0,1250)	Combined
Rau & Vermaelen (1998)	-4%*	3968	1980-91	(0,36 months)	Mergers
	9%*	348		(0,36 months)	Tender

* Significant at the 5% level
 Note : Unless otherwise noted, event date is the announcement date of the merger/bid

Figure 1-1: Adapted from (Bruner, 2002) Event Studies Long-Term Performance Results

Judging by the results collated by (Bruner, 2002) on M&A long-term performance using event study methodology; it is clear that majority of M&A transactions destroy shareholders value in the long-term. Moreover, other studies using different methodologies on M&A shareholders value creation obtained different results. However there is a general consensus that M&A transactions on average generate both short term positive abnormal returns and negative abnormal returns depending on a number of factors. Other studies found that

acquisitions create shareholders value from medium-term to long-term. The fact that there is no consistency with regards to results obtained by previous studies; justifies the need for this study which covers only companies operating within the TMT sector in South Africa. Nonetheless, there seems to be many factors that contribute towards the success or failure of acquisitions that eventually lead to shareholders value being created or being destroyed. These factors range from the company vision, capable management team, management motives for acquisitions, operating industry or sector, market structures, economic climate, technology trends, M&A strategy, payment method, valuation methods and purchase price of the target company, policies and regulations, synergies between the acquiring and the target company and integration strategies employed.

Global TMT Sector and South Africa TMT Sector Overview

Since the liberalisation of the telecommunications markets globally in 1996, the global TMT sector has become more competitive and innovative. The TMT sector in South Africa is relatively very small compared to other global TMT sector markets in countries such as the United States of America (USA), United Kingdom (UK) and other emerging economies such as India and China. In USA, TMT sector companies dominate the top 10 list of the New York Stock Exchange and the NASDAQ Stock Exchange. TMT sector companies are also the main drivers of economic growth in USA. USA based TMT sector companies also play a big role and contributes significantly to other countries TMT sector markets such as South Africa. South African TMT sector is heavily influenced by USA multinational companies such as IBM, Apple, Oracle, Google and Microsoft to name a few. Nonetheless, the South African TMT sector is still growing and had a total of 34 JSE listed TMT companies with 6 Telecommunications companies, 7 Media companies and 21 well-established Technology companies by the end of December 2013. The TMT sector still lags behind other sectors such as the financial services, mining and industrial sectors in terms of contribution to the GDP (Gross Domestic Product) in the South African economy. It is also worth noting that for the past two decades, most jobs in the South African economy were also created by the TMT sector due to high organic growth experienced by telecommunications services providers; and other information, communications and technology companies that emerged in the past two decades.

TMT stands for the Telecommunications, Media and Technology which is a globally accepted grouping Information, Communication and Technology (ICT) companies into one sector. This is because their line of businesses, services and products are interrelated and interdependent; and often driven by similar technologies and infrastructures. Companies are grouped together from three different sectors namely telecommunications sector, media sector and technology sector into what is known as the “TMT sector”.

Annual TMT M&A as a proportion of global M&A



Figure 1-2: Global TMT M&A 2007-2013, Source: Mergemarket (2013)

According to Mergemarket (2013) global technology, media & telecommunications trend report, M&A activity totalled to US\$ 510.3 billion, an increase of 54.1% above US\$ 331.1 billion for 2012 which was the highest annual value since 2006 with a value of US\$ 603.8 billion. Furthermore, Mergemarket (2013) indicated that there were 14 mega-deals above US\$ 5 billion, the highest number since the 21 mega-transactions in 2007.

Sub-sector breakdown

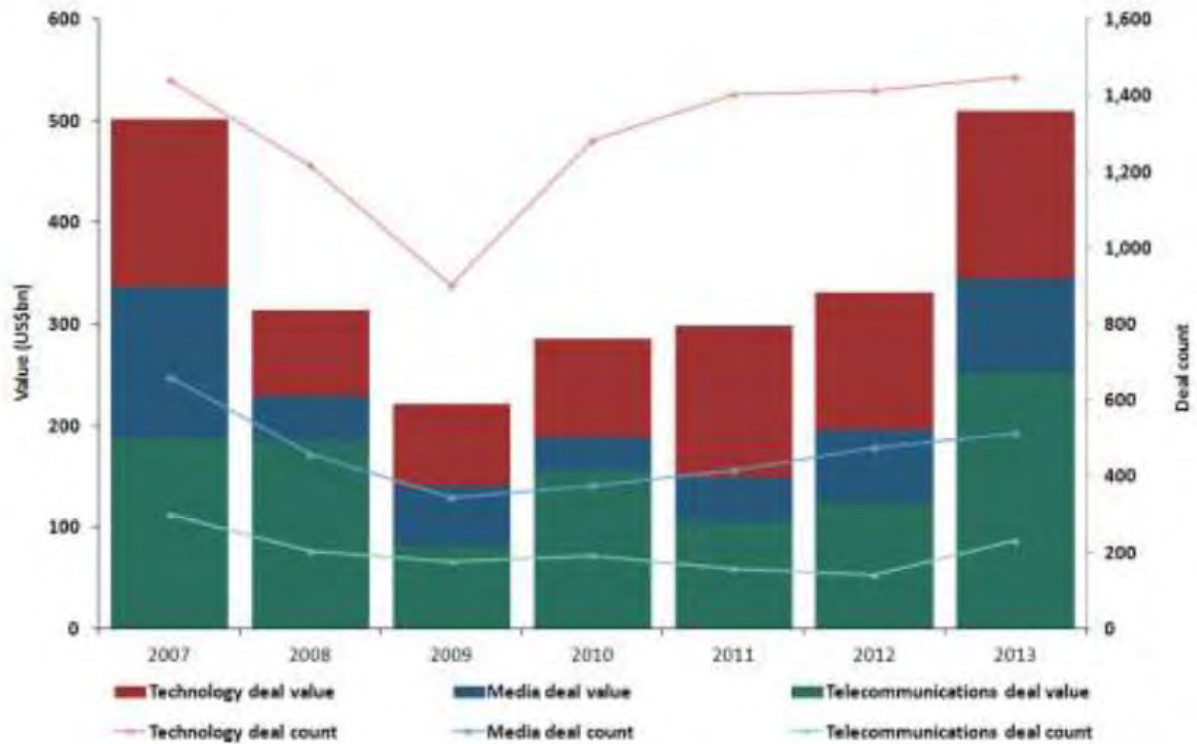


Figure 1-3: Global TMT sub-sector Breakdown, Source: Mergemarket (2013)

Telecommunications Sector: Telephone companies, mobile network operators, network infrastructure and extended mobile service providers.

By the end of 2013, there were only six JSE listed telecommunications companies. The telecommunications sector has stimulated M&A activity the most between 2005 and 2013 period compared to technology and media sectors both globally and in South Africa. Telecommunications sector accounted for most of the mega deals within the TMT sector. Mergemarket (2013) indicated that despite an increase of M&A activity in all sub-sectors in general, increase was particularly strong on the telecommunications market valued at US\$ 251.9 billion, which was an increase of 104.7% in 2013. Vodafone and Verizon Wireless deal was the main contributing factor and Mergemarket (2013) report suggested that if it was not because of the Vodafone and Verizon Wireless deal, an increase would have been only 3.8%, representing 49.3% of telecommunications M&A.

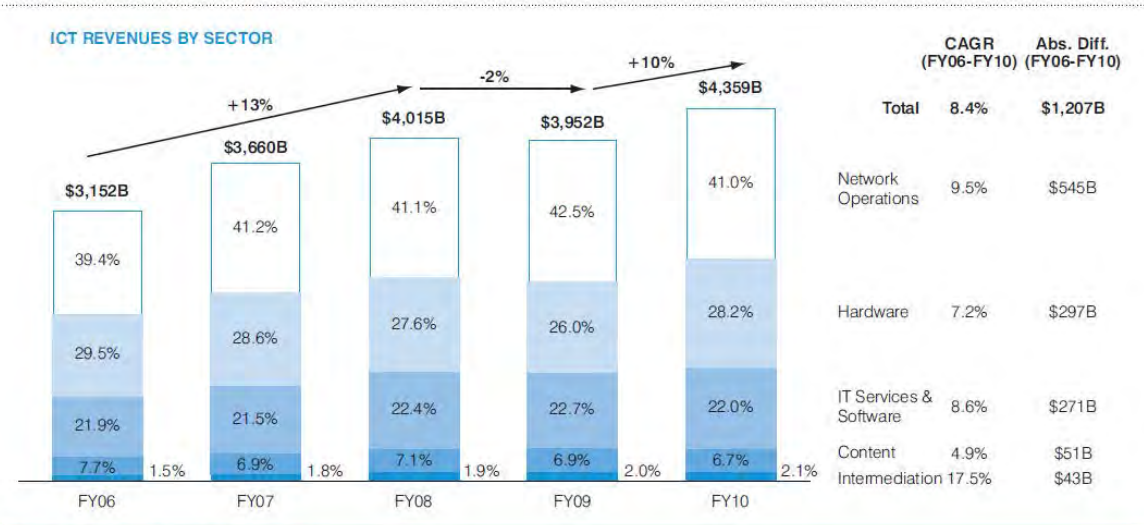
Media Sector: Content providers, agencies, TV broadcasting, social media, digital entertainment and gaming companies.

By the end of 2013, there were only seven JSE listed Media broadcasting and entertainment companies. The global media M&A was valued at US\$ 92.1 billion in 2013 which was up 27.8% from 2012; and growth was mainly driven by media broadcast companies in Europe and North America using M&A to combat the mounting competition with online services (Mergemarket, 2013). In South Africa, Naspers Group pursued a number of acquisitions both local and abroad driven by its e-commerce strategy and booming online services.

Technology Sector: Software, hardware, IT services and e-commerce companies.

By the end of 2013, there were only 21 JSE listed technology companies. Mergemarket (2013) report indicated that in 2013, technology M&A increased by 22.3% and valued at US\$ 166.3 billion. Furthermore, in Asia, a significant 70.6% share of technology deals targeting the region made up its total TMT sector value of US\$ 57.3 billion; and Asian TMT deals have been driven by large companies looking for technology in the mobile internet and services segment to seize fast-changing technology, as well as non-core divestitures made by troubled Japanese electronics giants such as Panasonic and Sony (Mergemarket, 2013). In South Africa, technology companies such as Adapt IT, EOH and Datatec have also been highly active and each company selected for this study concluded minimum of two transactions between 2005 and 2013 period.

Exhibit 2
TMT Industry Revenue Growth, 2006-10



Source: Bloomberg data, Booz & Company analysis

Figure 1-4: TMT Sector Revenues, 2006-2010, Source: Booz & Company (2010)

In terms of revenues, Booz & Company (2010) indicated that telecommunications services providers or network operators accounted for most of the revenues with 41% of TMT sector revenues valued at \$545 billion. This was followed by technology companies within the hardware market accountable for 7.2% of the revenue valued at \$297 billion, technology companies within the IT services & software revenues were 8.6% valued at \$271 billion, media companies selling content generated 4.9 % valued at \$51 billion and lastly companies offering intermediation services accounted for 17.5% revenues valued at \$43 billion (Booz & Company, 2010). Judging by the revenues generated by the global TMT sector; it is clear that TMT sector is playing a big role in global economies including South Africa.

Nonetheless, some companies are able to operate in all three sectors at the same time in order to take advantage of economies of scale which is now known as “TMT Convergence”. In 2010, the internet giant Google, after having established its search engine over the past decade, announced that it will acquire Motorola Mobility. The deal followed a similar strategic move by Microsoft acquisition of Nokia, which partnered to integrate the Mobile Windows Phone platform with Nokia’s range of smartphones devices allowing Microsoft to tap into the telecommunications market. Both deals showed the quest for diversification whereby both Google and Microsoft wanted to move into the mobile hand held devices markets taking advantage of TMT convergence. To date, there are also quite a number of management consulting firms, investment banks, private equity firms and law firms with TMT sector practices which is an indication of the sector maturity. This study have also made references from other publications from industry players within the TMT sector such as Mckinsey & Company, Deloitte, Kpmg, Price Waterhouse Coopers, Booz & Company, ENSAfrica and others.

TMT Sector Contribution to the South African Economic Development

Financial Indicator	Rate
GDP Growth	3.0%
Inflation (consumer price)	6.0%
Inflation (producer price)	6.7%
Interest (Repo)	5.00%
Unemployment	24.7%
Gross Domestic Savings to GDP	13.3%
Dissaving by Government as of GDP	1.7%
Household Savings of GDP	1.7%
Household Debt to disposable income of households	75.8%
Household Disposable Income of households	2.4%
Consumer Financial Vulnerability Index	46.7%

Sources: The South African Reserve Bank - Quarterly Bulletin September 2013 and Quarterly Employment Statistics (QES) survey by Statistics South Africa (Stats SA Q3), 2013 and MBD Credit Solutions/Bureau of Market Research (BMR) UNISA Consumer

Figure 1-5: Key South African Economic Indicators, Source: Savings Institute (2013)

It is imperative to also look at how TMT sector and M&A in South Africa contributes towards socio and economic development in South Africa. Socio and economic stability has a direct impact on shareholders value in whole lot of ways; from government policies perspective, skills availability and employees morale to name the few. Cicarin (2008) argued that it is widely accepted that leading business organisations are the key driving force behind the world economy and society, and that businesses that successfully integrate other business, that integrate financial, social, and environmental objectives to determine their future and future of society are the engines for growth and sustainable economic development in the global market place, at the same time creating added shareholder value. It is also worth noting that some of the big players such as MTN Group, Vodacom Group and Business Connexion within the South African TMT sector were featured among the companies that have successfully qualified for the Johannesburg Stock Exchange (JSE) Social Responsibility Index Investment (SRI) in 2013. The SRI index showcases listed companies which have achieved the requisite score determined by a set of criteria relating to policies, performance and reporting in the triple bottom line environment as well as corporate governance practice. Furthermore, it also means that companies that qualify for the JSE SRI index have

successfully integrated environmental, economic and social sustainability practices across their business models. This means that companies like MTN, Vodacom Group and Business Connexion whom are also part of the SRI Index are making positive contribution towards socio and economic development in South Africa. This is despite the perception that companies that engages in M&A activities only cares about the bottom line which is making profit not socio economic issues such as unemployment and environment. Refiloe Sekhoto senior M&A manager at MTN Group in a response to the survey said that, M&A are catalyst to market development and can also address socio-economic issues.

According to Research ICT Africa (2013), Statistics South Africa reported that in 2005, the ICT sector total output was valued at more than ZAR153 billion, and the ICT sector's contribution to South African GDP was reported to be around 7% in 2013 similar to other emerging markets like India. In addition, the Department of Communications (2010) reported that the total South African telecommunications market had grown from ZAR131 billion in 2007 to ZAR179 billion in 2010.

The South African government under the ruling party African National Congress (ANC) formed the National Planning Commission (NPC) in 2009 to craft the country's vision for the next 30 years. NPC main deliverable was the National Development Plan (NDP) which was released in 2011 and in the plan's chapter on economic infrastructure, the government clearly set out the vision for the ICT sector in South Africa which directly impacts all companies operating within the TMT sector. It was emphasized that by 2030 ICT sector is expected to underpin the development of an inclusive dynamic information society and knowledge economy (NDP, 2011). Furthermore, the document indicated that in the short term, from 2012 to 2015, realisation of this vision will entail development of a comprehensive and integrated e-strategy that reflects the cross-cutting nature of ICT. The NDP document also showed how the South African government is committed to grow and support the ICT sector and this will present TMT sector companies with lot of opportunities and challenges from policy and regulations perspective.

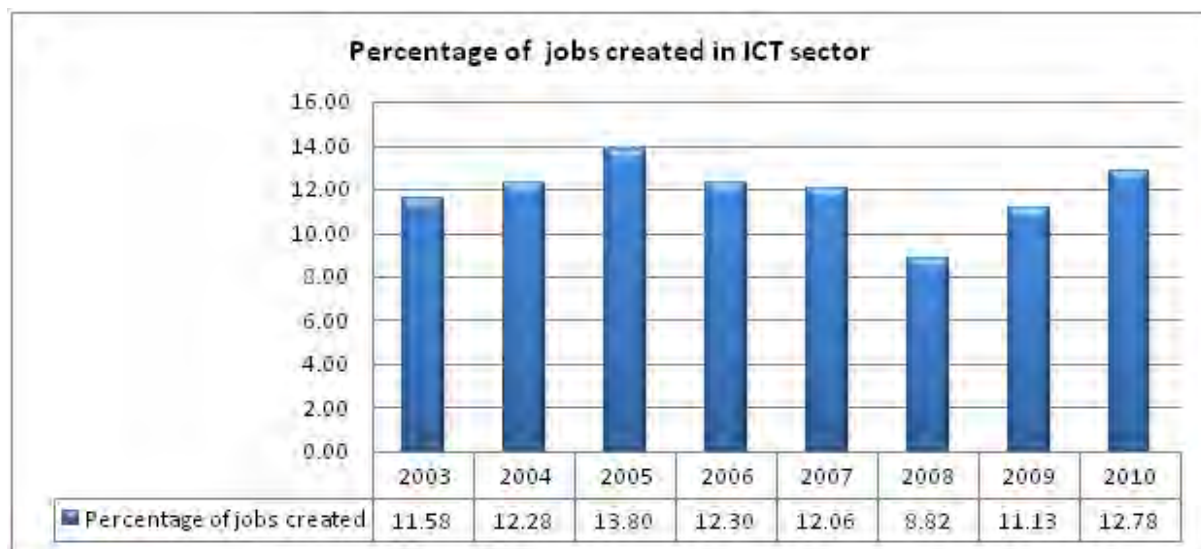


Figure 1-6: Percentage of Jobs created in the TMT/ICT sector (2003 – 2010) in South Africa, Source: FDI Intelligence, FEM Research (2011)

South Africa is faced with a challenge of unemployment which was 24.7% as of 2013. Nene (2012) concluded that acquired companies negatively affect employment, and companies are able to grow their businesses but not in correlation with growing their workforce based on the study on 42 JSE listed companies acquired in the period of 1996 and 2008. Moreover, study found that labour costs to turnover declines in years post the merger, indicating that companies turn to use less of labour in order to generate growth which was also supported by the finding that M&A introduces technological changes and economies of scale to the acquired companies which results in employment not being created. Cicarin (2008) also cited staff reductions which includes the job of a former CEO as one of M&A synergies. However, in comparison with traditional sectors such as agriculture and mining, TMT sector have been growing significantly and was responsible for most of the jobs created in the past two decades within the South Africa economy. It is also fair to say that other selected companies such as MTN Group and Naspers are contributing positively to both the society and their shareholders given the number of jobs created during 2005 and 2013 period.

Forecast growth rates

Country/Region	2012	2013	2014	2015	2016	2017
Developed economies	1.4%	2.0%	2.4%	2.6%	2.7%	2.7%
Developing economies	5.7%	6.0%	6.2%	6.3%	6.3%	6.3%
China	8.2%	8.8%	8.7%	8.7%	8.6%	8.5%
India	6.9%	7.3%	7.5%	7.7%	7.8%	8.1%
Russia	4.0%	3.9%	3.9%	3.9%	3.8%	3.8%
Brazil	3.0%	4.2%	4.0%	4.1%	4.1%	4.1%
Sub-Saharan Africa	5.4%	5.3%	5.5%	5.6%	5.5%	5.5%
Kenya	5.2%	5.7%	6.3%	6.3%	6.5%	6.5%
Nigeria	7.1%	6.6%	6.5%	6.5%	6.6%	6.6%
South Africa	2.7%	3.4%	4.0%	3.9%	3.7%	3.7%

Source: *World Economic Outlook. International Monetary Fund, April 2012.*

Figure 1-7: IMF Emerging Markets Economic Growth Rates Forecasts, Source IMF (2012)

According to Somdaka (2013), studies show that in the 1980s and 1990s, globalization was largely driven by economies of the developed countries. During that period, it was primarily companies from USA, Europe and Japan that explored opportunities worldwide to further entrench their businesses. But more recently, large multinational companies headquartered in emerging markets like Brazil, China, India and Russia have started to influence and redefine the dynamics of trade relation and globalization. Similarly, some South African TMT sector companies are now playing on the global stage and have engaged in cross border M&A in other emerging markets such as Brazil, China, India, Russia and other parts of Europe.

Companies such as Naspers and Datatec have made acquisitions in emerging markets such as India and Brazil and Europe. Business Connection and MTN now has strong presence in Africa and stand to reap the rewards from their investments if the IMF growth forecasts are to be realized given the fact that International Monetary Fund projected growth rates were not achieved in South Africa in 2012 because in 2013 GDP growth was only 3% compared to IMF projected GDP growth of 2.7 % in 2012 and 3.4% in 2013. In 2014, South African government established the new ministry to focus on SME development to encourage youth to start their own businesses due to high unemployment. (Modimogale, 2006) recommended that all Small, Medium, Micro-Enterprise (SME) businesses need to seriously consider

implementing more ICT in order to remain competitive in today's fast moving global knowledge economy. Given the fact that the government is investing lot of resources towards SME development to address socio-economic problems; some of the SME's will come from the TMT sector and this will continue to stimulate M&A activity within the sector.

Mergers and Acquisitions and Shareholders Value Creation

The expression „Mergers and Acquisitions“ is used as an umbrella term for transactions in which in most instances a firm or a business unit is sold (Slomp, 2009). In a merger, the assets and liabilities of two or more firms are combined into a single merged firm. In an acquisition, the acquiring firm uses combination of cash, debt and equity securities to purchase the acquired firm. A merger often relates to a friendly transaction which is proposed by the management of the merging firms, whereas an acquisition or a takeover is often referred to as a transaction which is regarded to be unfriendly and in which the target firm shareholders are offered to sell their shares to the buying company (Bruner, 2003). This study is focusing on ten selected JSE listed companies within the TMT sector and the term “Mergers and Acquisitions “ refers to TMT sector companies acquiring other companies in a form of an acquisition and later merged into one entity. Mergers and Acquisitions are methods of forming business combinations underpinned by their business strategy.

Mergers and Acquisitions take place for many reasons, for example to displace inefficient managers; to achieve economies of scale and scope in production, distribution, and financing; to enhance monopoly power; to exploit tax reduction opportunities; to take advantage of bargains on the stock market or in the private company for sale market; and/or to build managerial empires (Ravenscraft and Scherer, 1989). Motives for M&A can be ranked under three major categories: synergy, agency and hubris (Berkovitch and Narayanan, 1993). The agency motive suggests that M&A take place because of a conflict of interest between the management and the shareholders of the acquiring firm. Managers may engage in takeovers at the cost of the shareholders when such acquisitions are beneficial to them personally. Management remuneration, for example, is often related to the size of the firm and company size could be increased relatively easy by takeovers (Jensen, 1988). The hubris motive says that acquisitions occur because managers of acquiring firms are blinded by hubris; they overestimate the gains from the acquisition and/or are too optimistic in their belief that they are capable enough to realize economic gains from the combination of the firms (Slomp,

2009). Since the main objective of M&A is to create or enhance shareholders value, the correct reason for conducting M&A should be driven by synergies between the two or more companies involved. M&A can only make sense if there are synergies between the companies in a proposed M&A deal which will translate into shareholders value creation post integration. Moreover Slomp (2009) argued that synergy happens when the value of two firms combined together is greater than the total value of each of the firms independently. In essence there is synergy when the combination of two or more elements is (worth) more than the sum of the components (Slomp, 2009).

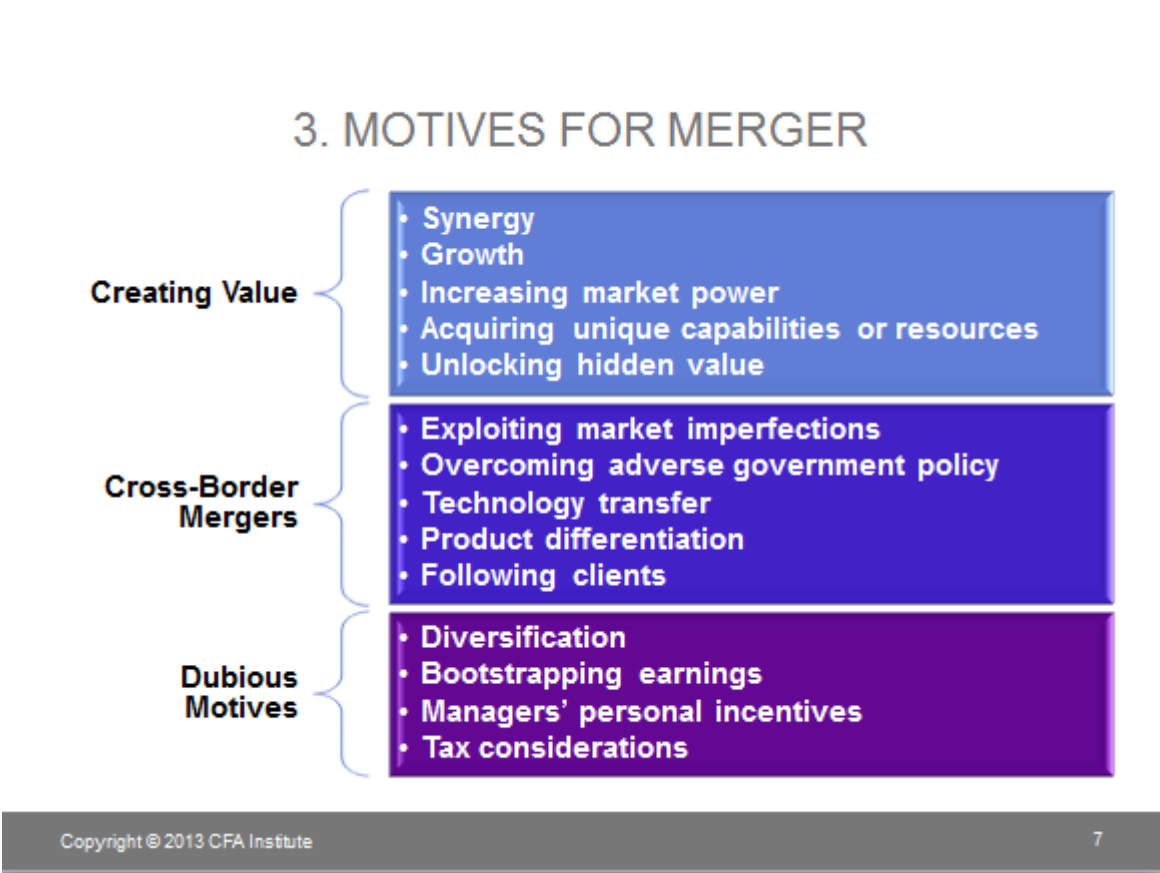


Figure 1-8: CFA Institute Motives for Mergers, Source CFA Institute (2013)

According to McKinsey & Company (2010), companies advance myriad strategies for creating value with acquisitions but only a handful are likely to do so. McKinsey & Company (2010) cited that the strategic Strategies for an acquisition that creates value typically conforms to at least one of the following five archetypes: improving the performance of the target company, removing excess capacity from an industry, creating market access for products, acquiring skills or technologies more quickly at lower cost than they could be built in-house, and picking winners early and helping them develop their businesses. Moreover,

McKinsey & Company (2010) emphasized that an acquisition's strategic strategies should be a specific articulation of one of these archetypes, not a vague concept like growth or strategic positioning, which may be important but must be translated into something more tangible. Furthermore, McKinsey & Company (2010) argued that even if an acquisition is based on one of the archetypes they recommended that, it will not create shareholder value if an acquisition was overpaid. Zhovtobryukh (2014) suggested that technology commercialization and leveraging from the innovation capabilities of the acquiring firm are two sources of value creation that are only available in technological M&A and have different value to different acquirers; which results in higher potential for value creation in technological M&A relative to non-technological ones.

Zhovtobryukh (2014) also argued that technological M&A have two sources of gains, in addition to those available in non-technological M&A, that are (1) unavailable in non-technological M&A and (2) produce synergies that are not equally available to all bidding firms and, hence, should result in superior performance of acquirers in technological M&A; and these two mechanisms for value creation are (1) more profitable commercialization of the target's technology by complementing it with the acquirers production facilities, distribution channels and marketing capabilities and (2) leveraging the innovation capabilities through merging the two complementary technology bases. Moreover, these synergies are not available in non-technological M&A because they, by definition, do not give technology inputs to the acquiring firm, and their value cannot be easily lost in the bidding process because it depends on the degree of complementarities (Zhovtobryukh, 2014). This is also very common to most of the M&A deals within the TMT sector.

Fenwick and West (2002), argued that a large company will acquire small technology company if it believes that an acquisition is an effective means of meeting strategic need and increasing shareholder value than an internal development; and the small technology company can make itself available for an acquisition if it seeks liquidity for its founders and investors; when its future success requires the synergies of complementary resources and access to the infrastructure of a large company. This is also true for some of the JSE listed TMT sector companies M&A strategies such as EOH and AdaptIT whom have successfully identified and acquired small companies which yielded positive results and increased value for their shareholders.

Osae (2014) suggested that mergers and acquisitions can offer significant opportunity for value creation if the deal objectives are clear and appropriate, with a comprehensive and holistic approach used in defining what value entails, the development of an assessment framework to measure post-merger success for on-going review and the development of corrective measures, as well as the use of key learnings in future deals. Osae (2014) concluded that failure to do this can have severe and negative consequences for shareholder value. Aves (2001) also supported this view and argued that mergers and acquisitions can lead to shareholder value creation, provided a clear strategy is laid down and followed; and key elements relate to both the type of merger, as well as the characteristics of the target firm. Aves (2001) concluded that if this set of acquisition criteria is rigorously applied, then there is every chance that an acquisition opportunity will be successful and create shareholder value. According to Panos Mourdoukoutas (2011) one of Forbes online contributors, it depends on how the M&A is planned and executed and M&A that begin with the right vision and executed at the right price enhance shareholder value. Oracle and IBM string of software acquisitions allowed the two companies to ride the rising demand for enterprise software and both companies have rewarded handsomely their stockholders (Panos Mourdoukoutas, 2011).

Types of Mergers and Acquisitions and Strategies

Companies use M&A for different reasons and there are different types of M&A which companies adopt depending on their strategic objectives. Regardless of which M&A type or strategy is chosen it is important that the chosen M&A strategy leads to shareholders value creation. Cicarin (2008) suggested that there are two types of mergers, namely purchase merger and consolidation merger that are distinguished by how the merger is financed; and each has its implications for the companies involved and investors such as withholding tax. With the purchase merger, purchase or sale is made with cash or through the issue of some kind of debt instrument and is taxable; and acquiring companies prefer this type of merger because it can provide tax benefit wherein acquired assets can be written-up to the actual purchase price, and the difference between the book value and the purchase price of the assets can depreciate annually thus reducing taxes payable by the acquiring company (Cicarin, 2008). Many literatures on M&A have outlined three major types of M&A namely horizontal, vertical and conglomerate acquisitions. However, recently there have been also a number of financial acquisitions as well creating a new M&A trend. Rosenberg (1997) suggested that as various telecommunications markets are opened to entry, some companies may choose to be

niche providers, offering a narrow range of services, other firms will implement a strategy that calls for them to offer "one-stop" shopping for all or most of consumer's telecommunications, entertainment, and information services; some firms that were once geographically constrained may adopt a strategy to expand beyond their former boundaries, becoming national and international providers; and one way for a firm to enter new markets or expand its presence geographically is to merge with, acquire or enter into joint ventures or strategic alliances with firms already positioned in desirable or complementary locations or lines of business. Some of the TMT sector giants in South Africa such as Naspers, Telkom Group and MTN Group have employed various M&A types and strategies to become multi-services providers by offering various services in all three sub-sectors namely telecommunications, media and technology in order to create more value for their shareholders.

Strategic Acquisitions

Strategic acquisitions are transactions in which the buying firm as well as the target firm operates in the same industry and/or value chain and majority of acquisitions are classified as strategic acquisitions. With strategic acquisition, the buying firm believes that the combination of the two firms will result in a more efficiently operating company and/or an improved market position. Most of the M&A transactions evaluated for this study are strategic acquisitions.

Horizontal Acquisitions

Horizontal acquisitions are deals in which firms operate in the same industry sector, for example they produce similar products and/or they target the same customers. From our sample an example of such a transaction is the acquisition of a telecom company (Verizone South Africa) by another telecom company (MTN Group).

Vertical Acquisitions

Transactions in which a certain firm acquires another firm in the same value chain are referred to as vertical acquisitions. The objective behind such acquisitions is to integrate companies at different stages within a product value chain. These types of acquisitions are also

common within the TMT sector. Deloitte (2014) argued that recently, many acquirers have placed increasing focus on revenue growth through convergence and software-defined innovation and in addition, many companies appear to be pursuing growth agendas in specific verticals or service categories.

Congeneric Mergers

Transactions entered between firms operating in related markets that are neither directly vertically nor horizontally related. Instead, the linkage may be through similarities in production technology, customer base, or distribution channels. These types of acquisitions are also common within the TMT sector wherein for example a telecommunication company can acquire a technology company and still rely on its existing customer base and distribution channels.

Financial Acquisitions

Financial acquisitions are transactions where incentive and efficiency improvements are the primary motives. These acquisitions are often called leveraged buyouts (LBOs) and are financed with high levels of debt involving external shareholders. There are not many of these acquisitions within the TMT sector.

Conglomerate Acquisitions

Conglomerate acquisitions are M&A deals not classified as strategic or financial acquisitions. These transactions involve the combination of unrelated types of businesses and are often motivated by diversification benefits and risk reduction. Due to our study focusing on the TMT sector, the companies and transactions selected are not conglomerate acquisitions because acquiring and target companies operate in the same industry and their businesses are related. Despite the quest for diversification by some of the companies within TMT sector, companies still make strategic acquisitions within the TMT sub-sectors namely telecommunications, media, and technology. These sub-sectors are interrelated and share common characteristics such as infrastructures and technologies hence they cannot be classified as conglomerate acquisitions. None of the acquisitions selected for this study are conglomerate acquisitions.

Key Drivers of Mergers and Acquisitions within the TMT Sector

According to Deals Drivers Africa Mergemarket report of 2012, the TMT sector is benefiting from the changing African economic dynamic, African companies are adopting new modern standards and technologies and forcing them to change their traditional business models. This innovation in the business model has increased opportunities for the technology sector both in hardware and software. Moreover, the rising demand for new mobile and internet services was cited as an important driver of the sector's growth. According to Kpmg technology industry outlook survey (2014), many companies are making M&A investments to access new technology, customers, talent, or to block competitors' access to key assets. Furthermore, the results from the survey indicated that access to new technology and products was the most important M&A driver with 65% of the votes. Furthermore, Kpmg (2014), revealed that 100 TMT sector executives indicated that the most important trends driving M&A are converging technologies (52 %), cloud computing (43%), data analytics (43%), mobility(43%), and social networking (20%) and their intention on making acquisitions will be to enter into new revenue growth areas (18.2%) , expand technology platforms (14.2%) , gain access to intellectual property and talent (14.2%), build and expand their audience and customers (13.5%) , deepen customer engagement (6.1%), consolidate components in ecosystem (4.7%) and lastly to accelerate their time to market(4.1%).

Clifford Chance (2013) argued that there is a lot of significant activity in the African telecoms space as tower sales continue, driven by dedicated players snapping up tower assets of local telecoms companies who are offloading them due to high maintenance costs. Furthermore, Clifford Chance (2013) also cited the roll-out of the 4G (Fourth Generation Networks) spectrum to be driving licensing deals and will stimulate the M&A activity as smaller operators will be seeking to consolidate or sell out to international players. Deloitte (2014) argued that there is no dispute that the technology landscape continues to change rapidly, the growing availability of internet access around the globe, proliferation of alternative access channels such as mobile devices, social media networks, and spread of user-generated content have led to an increasingly connected consumer base; this increase in connectivity, along with advancements in processor speed and storage, opens up new market opportunities but also drives significant disruption at an accelerating rate; and as a result, technology companies are responding to customer and market needs often through M&A in four primary areas namely scale, cloud services, mobility, and big data.

Makhele (2013) suggested that a change in economic conditions associated with regulatory or technological shocks might necessitate restructuring activities and an acquisition can restore efficiency through consolidation in industries that are plagued by low investment opportunities, excess capacity, deteriorating cash flows, and increasing capital costs. This is also true for TMT sector companies, looking at the South African TMT sector operating environment, especially for telecommunications services providers who are now looking at M&A to diversify their sources of revenues, modernizing traditional services to stay relevant; and to be able to introduce more value added services to their customers. Financial Mail Top Performers publication of 2013, reported that according to Datacentrix(also selected as a case study for this study), the increased competition within the sector coming from the telecommunications companies due to their own challenges in the form of slowing revenues in their traditional voice businesses. Furthermore, Datacentrix suggested that telecommunications companies were attempting to supplement their traditional voice revenues by extending offerings in the traditional IT sector such as cloud computing; a strategy that they hope will diversify their income base and in the process drive data revenues adding pressure to companies already operating in the technology sector especially IT companies.

Booz and Company (2010) also argued that despite their size and robust growth, telecommunications network operators have not succeeded in diversifying their sources of revenue significantly. Moreover, Booz & Company (2010) concluded that value added services will become increasingly important for long-term growth. The views by Booz & Company explains the reason why many TMT sector M&A strategies especially for telecommunications network services providers are centred around converging technologies known as “Convergence Strategy”. One of the current M&A key drivers within the TMT sector is “Convergence” which makes it easier for companies to provide innovative solutions leveraging on all technologies and infrastructures deployed by companies operating as telecommunications services providers, media services providers and technology services providers. Deloitte (2014) suggested that disruptive technologies and the increasing influence of digital channels are expected to drive continued convergence and M&A activity within the TMT space; and as a result, new business models that combine multiple technologies and sectors are rapidly emerging. Furthermore, Deloitte added that two trends are driving M&A activity; large incumbent players that started as a technology, media, or telecommunications company are merging into a converged space as the market continues to evolve. For example

Apple is a high-tech company that now has business components which look much like media or telecom entities, companies that started as a mixture of the three sub-sectors are growing in size and influence. Google is another example, and has been a converged software, high-tech, media, and telecom company and is achieving huge scale by combining TMT capabilities and engaging in M&A transactions such as its 2014 acquisition of Nest Labs Inc. Similarly, Microsoft acquired Nokia's Devices & Services business taking advantage of convergence. In South Africa, Telkom Group which was a monopoly for traditional fixed line telecommunications services invested in Vodacom with 50% ownership to enter the mobile cellphone telecommunications market before exiting the investment in 2009 to start its own mobile telecommunications services provider. Telkom pending bid to acquire Business Connexion which is dated back to 2006 is also guided by its convergence strategy so that it can also render information technology services.

According to Deloitte (2014), three tech trends are capturing the attention of strategic buyers who are looking to quickly monetize their acquisitions namely the mainstreaming of cloud computing; the rapidly emerging concept of mobility; and the growing use of big data/business analytics to improve enterprise performance. The advantage of cloud computing is that it often allows different forms of technology and data to be delivered in a more efficient and cost-effective way to businesses of various types and sizes. Moreover, the business model for cloud services typically is subscription based; with clients paying a monthly fee only for usage which is quite different from the technology industry historically dominant license-based, download-and-run model; and businesses don't have to host any infrastructure on-premise which is why this trend is set to grow and will influence M&A activity in few years to come. However, the cloud computing market will probably take another decade before it is fully adopted in South Africa and other parts of African markets compared to developed countries where it is currently being implemented by most companies. Furthermore, "Big Data" is also likely to create new growth opportunities and new categories of companies in data storage and management, analytics and visualization, data processing, and integration; and M&A targets are expected in the visual discovery, predictive analytics, text and rich media analytics areas; big data pure-play vendors responsible for the vast majority of new innovations and approaches to data management and analytics that have emerged over the last several years will become natural acquisition targets (Industrial Data Corporation, 2009).

Hilario (2011) argued that technology big players such as IBM, Microsoft, Cisco, HP are expanding to other segments beyond their core businesses, applying a diversification strategy in order to boost sales, decrease uncertainty about revenues, attract new users and keep pace with competitors; and this M&A trend is expected to continue in the long-run since companies need to grow the scale and scope of their affairs.

Kpmg (2014) cited that companies continue to hold massive amounts of cash and interest rates remains at historic lows (since the financial crisis of 2008) which will help companies to look for M&A. Deloitte (2014) concluded that increasingly, M&A has become a preferred growth strategy, enabled by a liquid capital market, the strongest equity market in a decade, and low interest rates sharing for well-capitalized buyers and also suggested that companies have been making a variety of acquisitions whereby large industry incumbents are adapting their portfolios, talent, and capabilities with post-start-ups, and middle market companies. However, Institute of Management Accountants (1997) argued that a company that is destroying value will always struggle to attract further capital to finance expansion, since it will be hamstrung by a share price that stands at a discount to the underlying value of its assets and by higher interest rates on debt or bank loans demanded by creditors. The South African economic climate has also been characterised by low interest rates since 2008 and telecommunications companies such as Telkom Group, Naspers, MTN Group and Vodacom Group have enough cash reserves to pursue further M&A deals.

M&A Valuation Methods and Pricing Issues

Valuation methods have huge implications on shareholders value post the M&A transaction. According to Price Waterhouse Coopers (PWC) Valuation Methodology of 2012, performing valuations in developing economies presents different challenges compared to performing valuations in developed economies. Each organization should adopt the valuation method that better matches its current situation, information available and its future perspectives of growth (Hilario, 2011). Welch (2004) considers the coherent and unbiased analysis of the company capital structure and capital structure changes as a way to increase the likelihood of adopting the correct valuation method. According to capital budgeting theory, an investment should be funded as long as the net present value (NPV) is greater than or equal to zero; and in applying the same principle to the acquisition, the buyer should be able to finance a purchase price up to the present value of the target company as an independent or stand-alone entity, plus the

synergy created by combining the acquiring and target companies, discounted at the appropriate cost of capital (Osae, 2011). Institute of Management Accountants (1997) also believes that changes in shareholder wealth are inferred mostly from changes in stock prices, dividends paid, and equity raised during the period; and since stock prices reflect investor expectations about future cash flows, creating wealth or value for shareholders requires that the firm undertake investment decisions that have a positive net present value (NPV).

Fenwick and West (2002) suggested methods to triangulate on a reasonable technology company valuation such as comparable public companies by obtaining the market value of comparable stocks, publicly traded companies within the same industry as a multiple of such companies' earnings and revenues, comparable transactions in order to compare the amount paid in acquisitions for other companies in the same industry, discounted cash flow analysis in order to assign today's value (known as present value or PV) to the cash flow to be generated by the target company future operations and this depends on the credibility of the target company future cash flows projections, and the purchase price denomination whereby an acquiring company can express the price as a certain dollar or rand value of its shares by specifying the mechanism for determining the number of shares to be issued at the closing of the transaction in case where issuing stock is used to pay for an acquisition .

However, Price Waterhouse Coopers (2012) argued that lack of listed comparable companies makes the application of a multiple-based approach more difficult and subjective. For example, acquiring company could offer that number of shares determined by dividing \$25 million by the average of the closing prices of the acquiring company stock for the ten trading days ending three days before the closing of the merger or a fixed number of shares can be issued for a certain value of an acquisition. Furthermore, Fenwick and West (2002) suggested that in mergers between companies of relatively equal size, acquiring company frequently will express the purchase price as the number of shares that will give the target company security holders a certain percentage of the combined entity. For example, the acquiring and target company security holders can have 55% and 45% respectively post-closing capital of acquiring company.

Due to the fact that there are market risks involved pertaining valuation methods that uses company's stock market prices, Fenwick and West (2002) also suggested that one way of dealing with the "market" risks is to price the transaction subject to a "collar." A "collar" is a

range of acquiring company stock prices within which there is an agreed-upon pricing method. For example, acquiring company might offer to pay the target company \$25 million of stock within a collar of \$10 to \$15 per share, 2,500,000 shares if the stock price is less than \$10 per share, and 1,666,666 shares if the stock price is greater than \$15 per share. This approach or valuation method ensures that in no event will acquiring company have to issue more than 2,500,000 shares in the acquisition. Nonetheless, other cautious valuation methods include net asset test and earnouts. Net asset test are used in case if target company balance sheet is likely to become significantly weaker or stronger between the date the definitive agreement is signed and the closing date, it may suggest that the purchase price be adjusted to reflect a change in target company net assets. For example, if the target company had \$2million of working capital at the date of signing and acquiring company expected it to decline to \$500 thousand by the closing date, acquiring company might want to have the purchase price reduced to reflect that change. Earnouts are used wherein some portion of target company purchase price will be paid by acquiring company only if the target company achieves negotiated performance goals after the closing. Parties typically use “Earnouts” when they agree that a higher target company valuation would be justified if the target company were to meet forecasted performance goals. Fenwick and West (2002) also suggested that even though “Earnouts” can motivate the target company management, the downside is that they are also difficult to implement and manage. From the study survey, MTN Group responded saying that they use DCF (Discounted Cash Flow, EV (Economic Value Add/EBITDA (Earnings Before Income Tax, Depreciation and Amortisation) multiple and a precedent transaction as valuation methods. For AdaptIT emphasis is on the sustainability of earnings of the target company. Tiffany Dunsdon, AdaptIT M&A executive responded to the survey saying that valuation methods used are sustainable earnings multiple warranted on a 3 year earn out. Business Connexion said that they have an internal process for valuation based on best practices from McKinsey & Company.

Price Waterhouse Coopers (2012) also highlighted the use of minority discounts and control premiums whereby control premium relates to the additional value associated with the ability to control the distribution of cash generated by the company; the ability to influence the timing and size of the dividend distribution; the ability to influence the direct policy and hiring of management and also the ability to select or choose suppliers; and minority discount is considered for minority shareholders in a company because they cannot influence operational decision making such as size or timing of dividends, choosing suppliers and

selecting management team. Furthermore, Price Waterhouse Coopers (2012) argued that failure to agree on valuation was the main reason of failure of transactions that have entered formal due diligence in emerging markets and the root cause of this includes uncertainty over future growth, market demand, distribution channels to be used, future actions of competitors, lack of industry and macroeconomics data, and few comparable companies that can form a base for valuation analysis. Irrespective of the chosen valuation methods, companies must ensure that valuation methods chosen put the interest of their shareholders first in order to maximize shareholders value.

TMT Sector Market Structures and Impact on Mergers and Acquisitions

The general market structure theory says the less competitive a market is; the more market power the firms have. Their ability to raise prices above marginal cost is much larger than it had been if there would have been more competition on the market. The relationship between marginal cost and price and the existence of profits depends on the market structure and in a market where there is free entry and the firms are identical, price equals marginal cost. Within the TMT sector in South Africa, the telecommunications and media sectors can be associated with the oligopoly market structure because they were only 6 JSE listed telecommunications companies and 7 media companies and the technology sector is a more of a competitive market structure given the fact that there were 21 JSE listed technology companies in 2013. However, there are more private companies within the TMT sector that add more competition to the sector especially technology companies. Rosenberg (1997) argued that the goal of bringing the benefits of competition, including lower prices, higher quality, and greater innovation, to telecommunications consumers has resulted in the removal of many barriers to entry into telecommunications markets and as these barriers are removed, some firms may find it strategically desirable to enter new markets by merging, acquiring, or forming an alliance with a firm that already has a presence in that market. Companies use M&A to influence market structures for their own benefits and the South African TMT sector is also starting to see value in M&A due to highly fragmented TMT sector markets and high number of small medium micro ICT companies which compels for consolidation through merger and acquisitions. The emergence of “Convergence” will result into a more competitive environment wherein companies will be able to operate in all three sub sectors. However, this can also lead to further fragmented markets with too many companies operating in certain markets and this has a potential to erode economies of scale for incumbents especially large

telecommunications companies. Incumbents are more likely to continue to respond to these challenges by acquiring small emerging companies posing threat to their existing market shares.

TMT Sector Policies and Regulations Impact on M&A

Policy and regulations can contribute positively or negatively towards shareholders value creation. Mergers and acquisitions within the TMT sector fall within the jurisdiction of two regulators: ICASA and the Competition Commission, established in terms of the Competition Act of South Africa of 1998. ICASA and the Competition Commission engage with one another and interact with respect to the investigation, evaluation and analysis of mergers and acquisitions transactions; complaints involving TMT sector competition and other market related matters. When M&A requires approval of both regulatory authorities, parties seeking approval are required to submit separate and concurrent applications to each regulator. Each regulator makes independent determinations based on their respective legislative requirements, even though they often consult each other during the process.

South Africa has relatively high communications and information technology services costs compared to other developing countries such as Nigeria, Kenya, India, China and Brazil. According to the Department of Communications (DOC), despite South Africa having the largest economy on the African continent, South Africa was ranked 30th out of 46 African countries in 2013, making it one of the most expensive countries for prepaid mobile services while growth in revenue in the telecommunications sector went from R7 billion in 1992 to R100 billion in 2009. DOC (2013) further argued that growth has been masked by a number of unintended policy and regulatory outcomes citing problems and challenges such as negligible fixed line growth, high retail wholesale prices, widespread job losses in the sector, minimal new foreign direct investment, institutional inability to anticipate, regulate and mitigate the challenges, complex presentation of pricing information which led to lack of comprehension by consumers so that they cannot make an informed decision on pricing. Independent Communications Authority of South Africa (ICASA) attributed high prices within the market as a result of high costs to the industry mainly from infrastructure deployment and maintenance which leads to high costs to users to communicate. ICASA believes that the cost to communicate in South Africa is too high and it was taking necessary action to address the challenge from a policy and regulation perspective. Whenever there is a

policy change that affects pricing of ICT services, this will also impact company's revenues and as result this will negatively impact shareholders value. ICASA initiated the cost to communicate programme with projects such as the broadband value chain study, ICT industry indicators collection, call termination market review, local loop unbundling regulation and wholesale aimed at stimulating competition within the TMT sector more specifically within the telecommunications sector. Some companies within the TMT sector are responding to these initiatives using M&A either to take advantage of the opportunities presented by changes in policy or coming up with defensive strategies were in policy changes work against them. However, ICASA and the Competition Commission has a duty to make sure that proposed M&A within the TMT sector do not reverse the gains sought to be achieved through policy and regulatory interventions. The purpose of M&A control in South Africa is to ensure that M&A transactions do not lead to substantial decrease in competition to the detriment of consumers and public interests (Ramburuth and Manoim, 2009). Competition in South Africa, especially within TMT sub-sectors such as telecommunications and media sector remains a challenge due to the fact that consumers are still paying high prices for communication and for pay TV services with few players dominating the markets.

According to ENS Africa (2010) a law firm with a TMT practice, the South African ICT sector has been overcome by policy and regulation challenges during the past decade since the introduction of a second fixed-line network operator Neotel and the enactment of the Electronic Communications Act (ECA) in 2005; which led to further liberalization of the market since the Telecommunications Act of 1996. ECA was seen as a legislation that unshackled the market constraints and enabled the optimization of a converged environment. Post the liberalization of the telecommunications sector through the Telecommunications Act of South Africa in 1996, followed by the Electronic Communications Act of South Africa in 2005, this created a highly dynamic and innovative environment within the TMT sector by removing many barriers which led to convergence among the three sub-sectors. This has dramatically opened up the markets allowing telecommunications, media and technology companies to collaborate or work together, form partnerships or strategic alliances, share infrastructures and technologies to achieve economies of scale. It is without a doubt that consumers continues to benefit because of more value added services being provided and declining services costs due to competition. Some companies have moved beyond these

strategic partnerships and have proposed acquisitions instead of strategic partnerships were they see value and synergies.

South African Law Reform Commission (SALRC) (2011) released a discussion paper to elicit responses from the Department of Communications on its preliminary findings and proposals regarding the review and amendment of all ICT legislation applicable in South Africa. Following the SALRC discussion Paper, the Department of Communications published the Electronic Communications Act Amendment Bill in July 2012. The Bill proposed a number of important changes, including aligning the ECA with broad-based black economic empowerment („BEE“), incorporating certain changes relating to ownership and control of commercial broadcasting services, and introducing a spectrum management agency that will have overall responsibility for the management of radio frequency spectrum in South Africa. ICASA (2014) argued that allocating or making more spectrums available to the industry through licensing process is sought to, among others things; achieve the following national policy objectives:

1. Facilitate the introduction of new national and rural providers of electronic communications, including broadband;
2. Ensure that participating licensees contribute to broad-based black economic empowerment.

Since the dawn of democracy in South Africa both Black Economic Empowerment (BEE) and Broad Based Black Economic Empowerment (BBEE) have been some of the key drivers of mergers and acquisitions. The two policies have been facilitating the transfer of ownership of assets of most of the JSE listed companies to previously disadvantaged individuals under the ANC government since 1994. Nonetheless, some of the M&A transactions within the TMT sector are sought to comply with both BEE and BBEE laws. Companies are choosing to pursue BEE M&A to increase their BEE rating score as one of the strategic objectives in order to improve their chances of getting work or contracts from the government or to have good image or brand within the society and communities. Some TMT sector M&A deals have been initiated strategically to increase the BEE rating score of an acquiring company. Moreover, ECA also put emphasis on spectrum management which opens up more competition to telecommunications services providers and media broadcasting services providers. Under the Electronic Communications Act (ECA), ICASA is empowered to grant

service licenses to both telecommunications and broadcasting service providers. The types of licenses that ICASA may issue are electronic communications network (ECN); electronic communications services (ECS) and broadcasting licenses. Nonetheless, technology companies including companies offering internet-based services are not as regulated as telecommunications and media or broadcasting services. In general, internet services other than content services are classified as electronic communications services (ECS) in terms of the ECA act of 2005. Providers of such services require only an ECS class license to provide internet services on a national basis unless the provider also provides voice telephony services using numbers from the national numbering plan, in which case an individual ECS license is required (ENS Africa, 2010) . However, there are quite a number of private companies offering internet services without the ECS licence due to high licensing costs and majority of these high growth small medium internet service providers provides voice over internet protocol (VoIP) service which is not regulated except to the extent that numbers from the national numbering plan are used to provide these services (ENS Africa, 2010).

When new licenses get issued to new companies this introduces new players in the market and as a result this directly impacts incumbent's revenues and their shareholders value. Some companies are using M&A deals in order to have access to these licenses that have been awarded to few companies by proposing to acquire companies with spectrum licenses. Some analysts believe that the move by South Africa's largest mobile telecommunications services provider Vodacom to acquire 100% stake of South Africa's second network operator Neotel in 2013 was motivated by the need to gain access to spectrum. Vodacom need access to the sought after spectrum which is a scarce resource and currently Neotel is one of the companies that have been awarded the licence. Rosenberg (1997) suggested that a legitimate concern for regulators is the potential for mergers, acquisitions, and alliances to mitigate the desired effects of competition by enhancing the market power of firms that may operate in multiple product and geographic markets. South Africa ICT/TMT sector expert Adrian Schofield (2015) said that Neotel/Vodacom lawyers appear to be trying to work around a loophole involving the Electronic Communications Act (ECA), which was recently amended; "The ECA made the differentiation of control of licences and ownership of an enterprise." Moreover, he said, Vodacom will effectively have control of Neotel's spectrum if the deal goes through; "if you buy the majority shareholding of a company, you appoint the board and decide what happens in the company, so effectively Vodacom is taking the spectrum; and the

technicality that they have to enter an agreement with Neotel to use that spectrum is just semantics”. Neotel was awarded the spectrum as a second network operator, a move by government to increase competition in order to eventually push the costs of communications down. However, the deal was questioned and received lot of complaints and disapprovals from Vodacom main competitors and small players at the Competition Commission and the regulator ICASA; due to fears that it will further erode competition within the sector and give Vodacom unfair competitive advantage over its competitors. Nonetheless, the Electronic Communications Act is intended to control, plan, administer and manage the use and licensing of the radio frequency spectrum and this has huge implications on some of the M&A deals within the TMT sector.

Moreover, ICASA also regulates the amount of spectrum available in the territory in which the licensee plans to operate, the type of services that the spectrum is to be used for and spectrum allocated to security services recommended by the International Telecommunications Union (ITU). Due to the fact that spectrum is a scarce resource and very few spectrum licenses have been awarded to few operators, those who wish to acquire or have spectrum in order to fulfil future strategic objectives may acquire or merge with existing operators with the sought after spectrum. This may collude with ICASA, Competition Commission and the Department of Communications efforts to stimulate competition and eventually drive prices down. Telecommunications companies such as MTN and Vodafone have concluded a number of cross-border acquisitions in foreign countries by acquiring operators already awarded operating licenses and spectrum in their home countries in order to expand their global footprint.

ENS Africa (2010) concluded that there is a clear need for more comprehensive and coherent policies to be established by the Department of Communications going forward, and will need to be efficiently managed and implemented by the regulator ICASA. ENS Africa (2010) recommended that new policies should aim to promote competition in the market; encourage investment and innovation as well as a diversity of views; coordination of state enterprises active in the TMT sector; and a targeted universal services strategy to deal not only with the gaps in the market, but demand-side stimulation of the market. If all these policy proposals and recommendation are implemented, this will create a perfect environment for commercially viable M&A deals within the TMT sector.

Makhele (2013), argued that M&A can enable companies to attain a larger market share and thereby increase the price of their products or services, relative to their cost. Furthermore, the desire and drive to gain more market power is considered as another objective for mergers, and increased market power is not only confined to the area of sales but can also be achieved in the area of purchases and anti-trust laws curb such intentions of companies in gaining power (Makhele, 2013). The regulations within the TMT sector in South Africa for the past two decades which includes the Telecommunications Act of South Africa of 1996 and the ECT Act of 2005 created a more competitive environment; judging by the M&A recently announced, wherein incumbents are trying to retain and expand their market shares by acquiring small players and taking advantage of technology convergence for diversification purposes; and to be able to come up with innovative products and value added services.

In 2013, Telkom re-opened its talks to acquire Business Connexion since it started bidding for the company from 2006. The deal was called off by the Competition Commission in 2012 after it has received lot of criticism and complaints since its announcement back in 2006. This is evidence of mounting pressure on incumbents who are seeking new sources of revenues given the proposed M&A deals such as Vodacom and Neotel deal, MTN and Telkom deal and Telkom Group and Business Connexion deal involving South Africa's largest telecommunications services providers. Rosenberg (1997) argued that in general, many economists believe that the more a market is dominated by one or a few firms the less likely it will be to approach the competitive ideal. A major concern is that a merger that increases market concentration may increase market power or facilitate its exercise, lessening the concentration can have deleterious effects; first a merger that increases a firm's market may increase the firm's willingness and ability to engage in unilateral exercise of that power; second, a merger that increases market concentration may increase the ability of a group of firms to engage in a multilateral or coordinated exercise of market power through either overt or tacit collusion or cooperation (Rosenberg, 1997). It is clear that ICASA is safeguarding both the unilateral and multilateral exercise of power with regards to recent M&A proposals such as Vodacom and Neotel deal, MTN and Telkom deal and Telkom and Business Connexion deal. These deals have a potential to create only three powerful companies within the sector that can potential lead to market concentration at the expense of competition. Rosenberg (1997) further argued that if the goal of telecommunications reform is to promote competition, mergers that combine likely competitors should be considered suspect, firms

should not be allowed to remove potential competitors by merging with them; often the merging firms claim that there are significant cost savings or other benefits flowing from combining their business operations and if such costs savings or other efficiencies result, consumers should get a share. Vodacom and Telkom Group have stressed the need for economies of scale and efficiency within the industry in their proposals; and it remains to be seen if consumers will also benefit as a result. Furthermore, ICASA (2014) emphasized that while consolidation is a global phenomenon and anticipated in the market, all such deals may require regulatory approval, some operators have been in discussions, and some have informed the authority of their intentions, none of these transactions have come before ICASA. ICASA and the Competition Commission play a bigger role with regards to M&A within the TMT sector, and companies M&A strategies within the TMT sector should be informed and comply with country laws and objectives, and not only by the commercial viability or profitability of the deal.

For as long as the new policies and regulations will enable and encourage investment and innovation, not at the expense of employment and consumers at large; nothing will prevent companies to use mergers and acquisitions as a growth strategy and also achieve necessary consolidations on existing markets within the TMT sector in South Africa.

Key M&A challenges and issues within the TMT sector

According to Deloitte (2014), conditional approvals and “hold separate” requirements can delay and/or limit the realization of anticipated value creation and impact deal valuation to the buyer or seller due to intervening foreign currency fluctuations between a deal announcement and eventual closing. The delays on approvals add more complexity on the chosen valuation models to establish the fair price for the target company. Moreover, timing is another important factor when executing M&A within the TMT sector and delays can risk the whole M&A strategy since there is a question of market readiness, demand and need for specific services and products for specific periods and the issue of competition.

Furthermore, Deloitte (2014) argued that people can be productive working from any place on the globe at any time of the day or night in today’s world. However, having virtual teams, managers, and employees can result in unintended consequences during integration or

divestiture, virtual employment models are based on a mutual trust in a strategy, a performance expectation, an environment, and a certain set of employment terms; and during an acquisition, that trust can be in question; if core competencies reside in virtual employees, the risk of talent flight, disengagement, and passive resistance may be almost unmanageable. Due to the fact that some of the South African TMT sector companies are engaging in cross-border M&A it is important to address the challenge of managing offshore companies in order to extract full value.

Selected Companies (Case Studies) and M&A Acquisitions for the Study

Company	Sub-Sector	Size	Market Capitalisation(2013)
MTN Group	Telecommunications	Large	R406 Billion
Telkom Group	Telecommunications	Large	R14,6 Billion
Adapt IT	Technology	Small	R546 Million
Business Connexion	Technology	Medium	R2,2 Billion
Naspers	Media	Large	R10,2 Billion
EOH	Technology	Medium	R8,8 Billion
Convergenet	Technology	Small	R102 Million
Datatec	Technology	Large	R10,2 Billion
Pinnacle Holdings	Technology	Medium	R3,9 Billion
Mustek	Technology	Small	R564 Million

Table 1-1: Selected JSE Listed TMT Sector Companies

For this study, large companies are companies with a JSE market capitalisation of more than R10 billion, medium companies are companies with market capitalisation between R1 billion and R10 billion and small companies have market capitalisation of less than R1 billion. MTN Group, Telkom Group, Datatec and Naspers are classified as large companies; Business Connexion, Pinnacle Holdings and EOH are classified as medium sized companies and AdaptIT, Convergenet and Mustek are classified a small companies.

Case Study 1: Adapt IT

Company Name: Adapt IT

Sector: Technology: Software and IT services

Acquisitions:

Company	Target Company	Country	Percentage	Transaction Value	Method of Payment	Announcement Date
Adapt IT	ITS Holdings	SA	51%	R16 Million	Cash	1-Jun-09
Adapt IT	BI Planning Services	SA	100%	R17.25 Million	50% Cash and 50% Stock	3-Jan-12
Adapt IT	Swicon360	SA	100%	R10.4 Million	90% Cash and 10% Stock	29-Oct-12
Adapt IT	Aquilon	SA	100%	R98 Million	Cash and Stock	11-Nov-13

Table 1-2: Adapt IT Acquisitions, Source: McGregor BFA JSE SENS

Company Description:

Adapt IT is an innovative, specialized information technology (IT) services and solutions provider, delivering a variety of specialized turnkey IT solutions and services to the Manufacturing, Education, Financial Services and Energy sectors in over 21 countries worldwide.

Strategy and M&A Standpoint:

AdaptIT strategy focuses primarily on pursuing organic growth through IT Service and Product, Customer and sector diversification. It complements this growth by acquiring strategic, synergistic and earnings-enhancing software businesses. AdaptIT has grown organically and through M&A from being a South African company with local offices in Johannesburg, Durban and Cape Town and it now has international offices in Australia, Namibia and New Zealand.

Company	Target Company	M&A Rationale
Adapt IT	ITS Holdings	The acquisition will provide AdaptIT with a significantly diversified client portfolio, predominantly in the public sector and ensure that the company's risk is adequately managed. AdaptIT and ITS' product and service offerings are mutually complementary and can be "cross sold" into their respective markets. In addition, the acquisition will result in a significant improvement of the BBBEE credentials of ITS, facilitate sustainability and position it for future growth in the South African market.
Adapt IT	BI Planning Services	The Acquisition provides ADAPT IT with expertise and solutions which will enable value adding services to be extended to the Group's existing clients as well as access to new sectors and an increased presence in Gauteng. BIPS has a strong organic growth track record, strong entrepreneurial management and a blue chip client base, which will benefit from the Group's wider service offering.
Adapt IT	Swicon360	The Acquisition provides the Group with the requisite SAP technology expertise and solutions to enable the Group to extend value adding services to its existing clients in Mining and Manufacturing, as well as removing barriers to entry into new sectors, whilst strengthening the Group's Gauteng presence.
Adapt IT	Aquilon	The Acquisition provides ADAPT IT with an entry into specialised areas within the Oil and Gas sector. This strategic acquisition assists ADAPT IT to expand into the growing Energy sector in Africa, as well as extend its local reach into the Western Cape, and bolsters its SAP solutions expertise.

Table 1-3: AdaptIT M&A Strategies, Source: McGregor BFA JSE SENS

Case Study 2: MTN Group

Company Name: MTN Group (Pty) Ltd

Sector: Telecommunications

Acquisitions: MTN Group Announced the Acquisition of Verizon Business South Africa on the 25th June 2008

Company	Target Company	Country	Percentage	Transaction Value	Method of Payment	Announcement Date
MTN Group	Telecel Cote d'Ivoire and Telecel Zambia	Zambia & Cote d'Ivoire	75%			22-Jun-05
MTN Group	100% Telecel Zambia	Zambia	100%			12-Aug-05
MTN Group	Libertis Telecom(Congo)	Congo	100%	US\$102.5million		12-Dec-05
MTN Group	Mascom Wireless Botswana	Botswana	44%	US\$128 million		10-Nov-05
MTN Group	Investcom	Africa	71%			2-May-06
MTN Group	Verizon Business South Africa	SA	100%	R1.4bn	Cash	25-Jun-08

Table 1-4: MTN Group Acquisitions, Source: McGregor BFA JSE SENS

Company Description: MTN Group is a global telecommunications services provider operating in countries such as South Africa, Nigeria, Iran and other African countries. MTN Group featured amongst the biggest listed companies in South Africa in 2012 taking the top TMT spot with a market capitalization of R309.1 billion. MTN Group was the 6th largest listed company and the largest with a listing solely on the JSE.

Strategy and M&A Standpoint:

MTN Group is one of South Africa few success stories of a company which created value for its shareholders organically and through acquisitions of mobile telecommunications network operating licenses in foreign countries such as Iran, Ghana and Nigeria. In 2009, MTN also tried to merge with India largest telecommunications services provider Bharti Airtel. The deal dominated media for more than two years and was finally called off in 2012.

Company	Target Company	M&A Rationale
MTN Group	Telecel Cote d'Ivoire and Telecel Zambia	These transactions will further entrench the MTN Group's footprint in west and southern Africa, where it already has operations in Nigeria, Cameroon, South Africa, Uganda, Rwanda and Swaziland.
MTN Group	100% Telecel Zambia	100% interest in Telecel Zambia
MTN Group	Libertis Telecom(Congo)	The acquisition of Libertis is in line with MTN's strategy to consolidate its position as the leading provider of telecommunications in developing markets and further entrenches its footprint on the African continent
MTN Group	Mascom Wireless Botswana	This transaction forms part of MTN's stated strategy to be the leading mobile operator in developing markets
MTN Group	Investcom	MTN Group is undertaking the Proposed Transaction to enhance its growth profile in Africa and the Middle East, to gain further scale in emerging mobile markets, to strengthen its operational capabilities and to diversify its financial profile, thereby unlocking synergistic potential
MTN Group	Verizon Business South Africa	To Consolidate the South African Market

Table 1-5: MTN Group M&A Strategies, Source: McGregor BFA JSE SENS

Case Study 3: Telkom Group

Company Name: Telkom Group (Pty) Ltd

Sector: Telecommunications

Acquisitions:

Company	Target Company	Country	Percentage	Transaction Value	Method of Paym	Announcement Date
Telkom SA	MWEB Africa	Mauritius	100%	R610 million		10-Nov-08
Telkom SA	Africa Online	African Countries		GBP10,32m		12-Feb-07
Telkom SA	Multi-Links	Nigeria	75%	280 Million USD		22-Mar-07

Table 1-6: Telkom Group Acquisitions, Source: McGregor BFA JSE SENS

Company Description: Telkom SA is the first telecommunications services provider in South Africa and was the monopoly for many years prior global telecommunications liberalization between 1990 and 1993. Due to intensified competition from mobile network services providers, Telkom began to diversify its revenue sources to avoid relying on traditional fixed line voice revenues. Telkom embarked on a strategy to enter into converged ICT services, and has been keen on pursuing M&A in order to remain relevant and retain its market share which has been significantly reduced in the past two decades.

Strategy and M&A Standpoint:

Telkom is struggling to retain its position as a leading South Africa telecommunications services provider after selling its 50% stake of Vodacom in 2008. Telkom is now facing tough competition from other mobile network services providers such as Vodacom, MTN, Cell C and South Africa second fixed line operator Neotel. Telkom launched its mobile business called Telkom Mobile in 2012 and struggled to attract more customers in an already saturated voice market dominated by Vodacom, MTN and Cell C. From an M&A standpoint, Telkom bid to acquire JSE listed ICT services provider Business Connexion has been going on for almost 4 years with the Competition Commission battling with complaints from Telkom competitors both small and large.

Company	Target Company	M&A Rationale
Telkom SA	MWEB Africa	Telkom acquired MWEB Africa group as part of its Growth Strategy with headquarteres in Mauritius and operations in Namibia, Nigeria, Kenya, Tanzania, Uganda and Zimbabwe, and an agency arrangement in Botswana and distributors in 26 Sub-Saharan African countries.
Telkom SA	Africa Online	Telkom also acquired Africa Online as part of its Africa Growth Strategy which is an internet service provider active in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe
Telkom SA	Multi-Links	Multi-links is a Nigerian Private Telecommunications Operator with a Unified Access License providing fixed, mobile, data, long distance and international telecommunications services throughout Nigeria

Table 1-7: Telkom Group M&A Strategies, Source: McGregor BFA JSE SENS

Case Study 4: Naspers

Company Name: Naspers Group (Pty) Ltd

Sector: Media and Technology

Acquisitions:

Company	Target Company	Country	Percentage	Transaction Value	Method of Payment	Announcement Date
Naspers	MIH Allegro 71.2% stake in Markafoni	Turkish	72%	\$200m		7-Jul-11
Naspers	Gadu Gadu	Poland	96%	\$155m		4-Oct-07
Naspers	Polish Financial Portal Bankier	Poland	100%			9-Jun-09
Naspers	BuscaPe	Brazil	91%	\$342 million		29-Sep-09
Naspers	Abgril	Brazil	30%	US\$422 million		8-May-06
Naspers	Digital Sky Technologies (Subsidiary Mail.ru)	Russia	28.70%	US\$388m / (R2.9bn)		14-Jul-10

Table 1-8: Naspers Acquisitions, Source: McGregor BFA JSE SENS

Company Description: Naspers is a leading South African international media and e-commerce company with global presents in Africa, Middle East, Europe and Asia in countries such as China, USA, Thailand, India and Brazil. Naspers embraced M&A and have concluded more than 10 M&A transactions in the past 10 years.

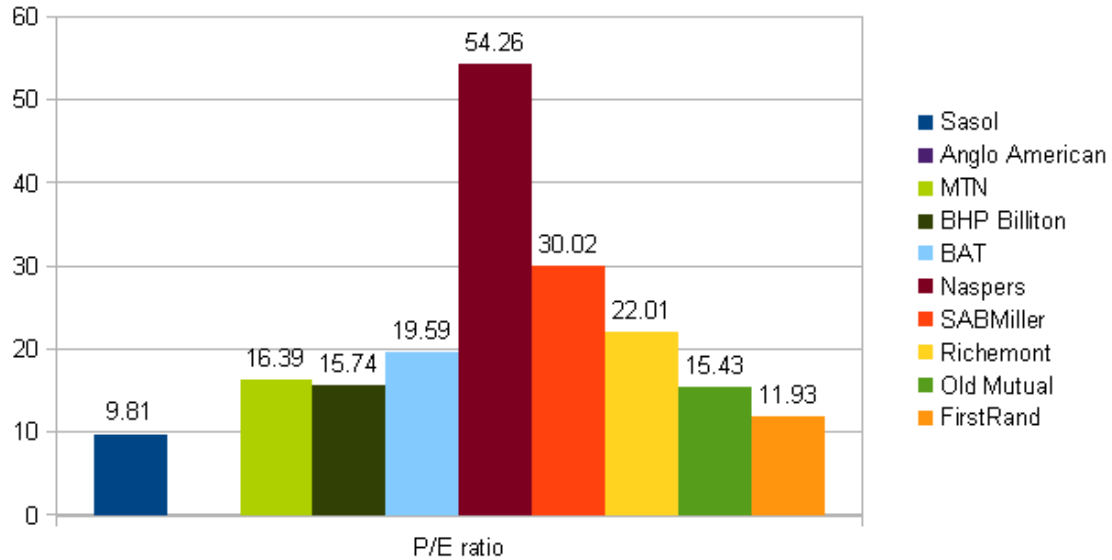
Strategy and M&A Standpoint:

Naspers aspire to be a strong operator in the ecommerce space and is mainly focusing on stepping-up growth in classifieds, driving scale and expanding global footprint in its B2C or business to consumer businesses, pushing further on new growth areas and prioritizing mobility. Naspers recently re-organized its businesses into global units under dedicated management and hopes to strengthen its competitive position by driving cohesion in terms of strategy, technology, systems and talent management.

Its pay-tv strategy is to deliver quality entertainment “anytime, anywhere and on any device”. Naspers is also focused on capturing the growth opportunity in digital terrestrial television (DTT) across Africa and on investing in online content delivery options.

Company	Target Company	M&A Rationale
Naspers	MIH ALLEGRO 71.2% stake in MARKAFONI	MARKAFONI is the biggest discount shopping website in Turkey.
Naspers	Gadu Gadu	The company has over six million unique users with a 43% share of the Polish IM market. The company also operates one of the leading social community portals in the country, mojageneracja.pl, with approximately 1,6 million unique users
Naspers	Polish Financial Portal BANKIER.PL	Bankier provides financial news, analysis and comparison-shopping information on consumer financial products ranging from mutual funds to mortgages
Naspers	BuscaPe	BuscaPe group is a leading provider of e-commerce services in Latin America. Its various properties enable consumers to make informed purchase decisions and transact on the internet
Naspers	ABGRIL	The acquisition is in line with Naspers's strategy to expand into new markets. In particular, the group is focused on the BRICSA countries (Brazil, Russia, India, China, South and sub-Saharan Africa), which present attractive growth opportunities.
Naspers	DIGITAL SKY TECHNOLOGIES through its subsidiary M	This transaction provides MIH with a significant stake in a leading internet group with growth potential in Russia and deep understanding.

Table 1-9: Naspers M&A Strategies, Source: McGregor BFA JSE SENS



Source: ProfileData

Figure 1-9: Naspers highest P/E ratio in 2013, Source: Profile Data (2013)

Naspers share price was the first TMT stock to break the R1000 per share mark in December 2013. Naspers was also in the top 10 of the overall largest JSE listed companies by market capitalization. However, based on the P/E ratios of JSE listed top 10, Naspers was the most expensive stock listed on the JSE in June 2013 with a P/E ratio of 54.26. It is clear that Naspers embraced the role and the power of internet in today's society and quickly shift its strategy from the traditional print media services to internet services such as online media and e-commerce which are now generating most of its revenues. Revenues from the internet services were attained through acquisitions of some of the global internet players such as Tencent (a leading Chinese internet company), Mail.ru (a leading Russian internet company), PayU and Flipkart. Some of the acquisitions have been carried out by its subsidiaries.

Case Study 5: Pinnacle Holdings

Company Name: Pinnacle Holdings

Sector: Technology

Acquisitions:

Company	Target Company	Country	Percentage	Transaction Value	Method of Payment	Announcement Date
Pinnacle Holdings	RentNet Rentals (Pty)		40%		Cash and Equity	3-May-06
Pinnacle Holdings	Datanet Infrastructure Group	SA				30-Oct-06
Pinnacle Holdings	Axiz Technology Holdings	SA	100%			20-Jul-10
Pinnacle Holdings	JAG Engineering SA	SA	90%			
Pinnacle Holdings	Tri Continental Distribution S.A. (Pty)	SA	100%			3-Apr-08
Pinnacle Holdings	EXPLIX BUSINESS SOLUTIONS	SA	50%	R 25 739 113	Cash and Equity	14-Jun-06
Pinnacle Holdings	PrecisionICT (Pty) Ltd	SA				20-May-13

Table 1-10: Pinnacle Holdings Acquisitions, Source: McGregor BFA JSE SENS

Company Description: Pinnacle Holdings is one of Africa’s largest providers of Information and Communication Technology products and services. Its profit growth over the last eighteen years has averaged over 40% per annum and has been premised on their ability to innovate and to be able to offer the right technology at the right time. Through its subsidiaries, Pinnacle Africa, Infracol, Centrafin, AxizWorkgroup, Datanet and Merqu Communications, Pinnacle Holdings offers hardware and software products, implementation solutions as well as structured finance solutions.

Strategy and M&A Standpoint:

Pinnacle Holdings continue to focus on increasing shareholder returns through a combination of expanded product selection as well as strategic acquisitions

Case Study 6: EOH

Company Name: EOH

Sector: Technology:

Acquisitions:

Company	Target Company	Country	Percentage	Transaction Value	Method of Payment	Announcement Date
EOH	Atos KPMG Consulting (Pty) Ltd	SA	100%	R20 million	Cash	9-Sep-03
EOH	TSS Managed Services	SA	100%	R130.5m	Cash and Equity	5-Jul-11
EOH	Highveld PFS	SA	100%	R70 million	Cash	19-Dec-08
EOH	Bromide Technologies	SA	100%	R30 million	Cash	19-Sep-06

Table 1-12: EOH Acquisitions, Source: McGregor BFA JSE SENS

Company Description: EOH strategy is centered on the African continent. It provides technology, knowledge, skills and organisational ability critical to Africa’s development and growth. EOH adopted the consulting, technology and outsourcing model in order to provide high value, end-to-end solutions to its clients in all industry verticals. Since EOH was listed in 1998, it has achieved 45% compounded annual growth due to a culture of remaining prudent and not just meeting, but exceeding, customer expectations. EOH operates in South Africa, Africa and the UK. According to Financial Mail, top companies of 2013 report, 2012 was a good year for EOH and EOH was ranked seventh in the Financial Mail Top Companies 2013 Top Performers report. Furthermore, the report argued that EOH continued with its growth

momentum and breached the R50 share price mark in 2012 which makes it one of the big four IT firms, and could become the biggest player in future.

Strategy and M&A Standpoint:

Financial Mail added that EOH's long standing formula of organic and acquisitive growth continues to bear fruit.

Company	Target Company	M&A Rationale
EOH	Atos KPMG Consulting (Pty) Ltd	EOH and AKC, which focuses on business and IT consulting, are similar in size, have complementary business models and share a similar outlook for the future. The international brand "Atos KPMG Consulting" will give the business global reach, international connectivity and the reference ability necessary to play at the top end of the market.
EOH	TSS Managed Services	The acquisition provides EOH with further annuity revenue, increased capacity in the area of IT infrastructure support and will also increase EOH's presence in the public sector.
EOH	Highveld PFS	The acquisition enables EOH to grow its combined resourcing businesses and to place more skills into the market place. It further provides EOH with a resource base of contractors for its other businesses and the opportunity to further skill resources through EOH's training facility, EOH Academy.
EOH	Bromide Technologies	EOH intended to expand the company's offerings to clients to include infrastructure offerings as part of the strategy to deliver "end to end" solutions. Bromide is a significant player in the infrastructure support services arena, with a large client base and a strong history of delivery and success.

Table 1-13: EOH M&A Strategies, Source: McGregor BFA JSE SENS

Case Study 7: Convergenet Holdings

Company Name: Convergenet Holdings

Sector: Technology

Acquisitions:

Company	Target Company	Country	Percentage	Transaction Value	Method of Payment	Announcement Date
Convergenet Holdings	Chrystalpine	SA	74%			15-Dec-08
Convergenet Holdings	SIZWE AFRICA IT GROUP	SA	51%	R67 241 436		28-May-07
Vestor/Convergenet	Convergenet SA	SA	100%	R9 100 000	Equity	4-Apr-07
Convergenet Holdings	Telesto	SA	26%	Shares worth R7800000	Equity	1-Apr-09

Table 1-14: Convergenet Holdings Acquisitions, Source: McGregor BFA JSE SENS

Nature of the Business:

ConvergeNet was established in 2005 to address the growing need for convergence solutions in the ICT industry due to the need for these solutions in emerging markets, specifically relating to multi-disciplinary products, solutions and services. Convergenet which was previously known as Vestor Investments was formed after Vestor Investments acquired

Convergenet SA, Telesto and Sizwe IT Africa and the name was changed from Vestor to Convergenet in 2007. ConvergeNet can be classified as a Special Purpose Acquisition Company (SPAC) formed to raise capital through initial public offering for the sole purpose of acquiring one or more operating businesses and the Group has two subsidiaries, CK Solutions and Structured Connectivity Solutions focused on the provision of ICT solutions to the private sector across Africa.

Company	Target Company	M&A Rationale
Convergenet Holdings	SIZWE AFRICA IT GROUP	The acquisition of Sizwe IT Africa is in line with the Group's strategy to acquire appropriate vehicles through which to achieve its vision of positioning itself as a significant ICT industry player. Sizwe was acquired for its access to clients and markets, specialised skills and capabilities and their ability to provide country-wide ICT service and support in South Africa
Convergenet Holdings	Telesto	Telesto focuses exclusively on the AVAYA Predictive Dialler and Agent Effectiveness Applications from AVAYA, for distribution and sale in Sub-Saharan Africa and the Middle East. These systems are widely used in outbound operations for call centres. The most common applications used are for collections, telemarketing and tele-servicing

Table 1-15: Convergenet Holdings M&A Strategies, Source: McGregor BFA JSE SENS

Strategy and M&A Standpoint:

Convergenet Holdings intention is to make further acquisitions to enhance capacity and capability to grow existing market share.

Case Study 8: Datatec

Company Name: Datatec

Sector: Technology

Acquisitions:

Company	Target Company	Country	Percentage	Transaction V	Method of Payment	Announcement Date
Datatec	Comstek Holdings (Pty) Ltd	SA	100%	R88 million	Cash	29-Nov-12
Datatec	Logicalis acquires European subsidiaries of 2e2	Spain, Ireland, Netherlands	100%	Euro24m (\$31m)		4-Mar-13
Datatec	Logicalis acquires Cibercall	Colombia and Ecuador				9-Nov-12
Datatec	TRIPLE ACCESS IT through its subsidiary Westcon Group	Austria		€14m		17-Jul-12
Datatec	AFINA GROUP through its subsidiary Westcon Group	Latin American and Iberian		€30m	Debt(20m) and Stock(10m)	2-Jul-12
Datatec	LOGICALIS acquires INCA SOFTWARE	UK		£7.3m	Cash and Debt(£0.7m)	17-Mar-11
Datatec	Logicalis acquires Direct Visual Limited	UK				24-Jan-11
Datatec	TOUCHBASE SINGAPORE	China				20-Sep-10
Datatec	Biodata IT SA (Pty) Ltd	SA				17-Sep-10

Table 1-16: Datatec M&A Acquisitions, Source: McGregor BFA JSE SENS

Company Description:

Datatec is listed on both the JSE and the London Stock Exchange. Datatec's core strategy is to deliver long-term, sustainable and above average returns to shareholders through the development of its three principal operating divisions namely technology, integration and consulting which are managed as sector-focused, stand-alone businesses. The divisions are able to react quickly to technology changes and adapt their operational and financial performance to best leverage the opportunities. Datatec creates shareholder value through actively and managing its complementary but standalone businesses by allocating capital and financing resources for each activity, supporting each division's growth strategies, providing corporate opportunities and sharing geographical and industry expertise, while also furnishing market and sector intelligence plus geographical and industry expertise.

Strategy and M&A Standpoint:

Datatec intention is to make further acquisitions to enhance company capacity and capability to grow existing market share. In addition, Datatec is not dependent on any particular market, territory or technology sector and is continually diversifying its supplier and customer base as a consequence of its scale and increasing globalization. According to Datatec Annual Report of 2013, The Group's strategy is to add acquisitions to grow the business, both in emerging markets and to enhance and balance the portfolio of products and services offered in existing established operations. Datatec's central corporate finance department manages the acquisition process across all the Group's divisions, working with the appropriate operational management on due diligence work and implementation plans, so that acquisitions can be swiftly and successfully integrated into the Group.

Company	Target Company	M&A Rationale
Datatec	Comstek Holdings (Pty) Ltd	By joining forces with Westcon (Datatec subsidiary) we will be able to further develop the markets where we have a presence as well as bolster the breadth of our offerings. We are delighted that both organisations have remained focussed and committed throughout this process which will result in the creation of a business that will have a market leading position across many parts of the African continent.
Datatec	European subsidiaries of 2e2	This acquisition of the four businesses immediately expands Logicalis' European footprint and enables us to improve our offering to Logicalis' multi-national and Latin American clients. They also open service opportunities in new customer markets which can be developed across the Logicalis group.
Datatec	Cibercall	The acquisition further builds Logicalis' presence in Latin America, combining Cibercall's local market knowledge and strong customer relationships, with Logicalis' existing ICT solutions portfolio, technical expertise and sound financial position.
Datatec	TRIPLE ACCESS IT	The deal expands WESTCON's security business footprint in Europe.
Datatec	INCA SOFTWARE	The deal created one of the UK's first system integrators capable of delivering the full suite of next generation business transformation tools.
Datatec	AFINA GROUP	The acquisition apart from expanding Westcon's presence in Latin America, the Caribbean, Europe, and North Africa it also broadens and deepens Westcon's product portfolio, through the addition of new (or stronger) relationships with strategic vendors such as VMware, Riverbed, Symantec and Citrix. It will also create unrivalled coverage throughout the Americas, as Westcon gains an immediate on-the-ground presence in Argentina, Chile, Colombia, Venezuela and Peru in addition to coverage across Central America and the Caribbean. It also adds a significant presence in Mexico which will boost Westcon's recently established operations there. Afina's operations in Brazil will augment Westcon's existing strong presence in that market.
Datatec	TOUCHBASE SINGAPORE	This ACQUISITION brings further UC and customer contact expertise to Logicalis as well as growing its Asia Pacific presence and reinforcing the Cisco Asia relationship.
Datatec	Biodata IT SA (Pty) Ltd	The acquisition will be integrated into Westcon SA, Datatec's South African networking, convergence, security and mobility distribution business. Biodata's strong vendor suite and established presence in the local market adds significantly to Westcon SA's existing security portfolio.

Table 1-17: Datatec M&A Strategies, Source: McGregor BFA JSE SENS

Case Study 9: Mustek

Company Name: Mustek

Sector: Technology

Acquisition:

Company	Target Company	Country	Percentage	Transaction Value	Method of Payment	Announcement Date
Mustek	Sizwe Africa IT	SA	26%	R15166 666.45	Cash	12-Dec-13
Mustek	Rectron Holdings	SA	34%	R96551277	Cash	12-Mar-07

Table 1-18: Mustek Acquisitions, Source: McGregor BFA JSE SENS

Company Description:

Mustek is the largest assembler and distributor of personal computers and complementary ICT products in South Africa. Mustek is the operational business division of the Mustek Limited Group (established in 1987) which also includes Rectron. By combining the best of local assembly capabilities of the Mecer brand with a multinational product portfolio via a broad range of top tier ICT brands, Mustek is focused on being the country's ICT distributor of choice. Through the supply of configuration and customization, tried and trusted best

industry practices and competitive pricing, Mustek is positioned to service a wide range of technology needs.

Strategy and M&A Standpoint:

Company	Target Company	M&A Rationale
Mustek	Sizwe IT Africa	The transaction is part of the Group’s drive to broaden its service offering - it would also deliver access to a larger customer footprint, align us with a partner with a solid track record and critical mass and improve our Enterprise Development standing.
Mustek	Rectron Holdings	Mustek intends to consolidate its investment in the sourcing and purchasing of hardware, software and peripherals for computers and electronic equipment and the distribution thereof

Table 1-19: Mustek M&A Strategies, Source: McGregor BFA JSE SENS

Case Study 10: Business Connexion

Company Name: Business Connexion

Sector: Technology

Acquisitions:

Company	Target Com	Country	Percentage	Transaction Value	Method of Paym	Announcement Date
Business Connexion	UCS	SA	100%	R614 million	25% Equity and Cash	15-Dec-10
Business Connexion	Integr8 IT	SA	100%	R126,0 million	Cash	5-Nov-12

Table 1-20: Business Connexion Acquisitions, Source: McGregor BFA JSE SENS

Company Description: Business Connexion divisions are structured on the overall business strategy, vision and mission. The Corporate Office is the foundation of the Business Connexion Group providing transactional support and specialist services in Marketing and Communications, Finance, Human Resources, Commercial Services and Corporate Information Technology. Business Connexion African penetration grown in the past two years have shown a significant turnaround in the International Division and continue to focus on positioning its operating structures and its resources to operate in the divergent and challenging African market. Currently the company has footprint in Kenya, Mozambique, Namibia, Tanzania, Zambia, Nigeria and the United Kingdom.

Strategy and M&A Standpoint:

Company	Target Company	M&A Rationale
Business Connexion	UCS	To consolidate the Group's dominance as an ICT service provider in the demand-based retail industry.
Business Connexion	Integr8 IT	The acquisition enhances competitive advantage in the mid-market corporates, creating a complementary platform of services markets and broadens UCS Solutions' historic retail focused infrastructure services.

Table 1-21: Business Connexion M&A Strategies: Source: McGregor BFA JSE SENS

3 RESEARCH METHODOLOGY

3.1 Research Approach and Strategy

According to Bruner (2004), four general methods are used to evaluate whether acquiring companies create or destroy value with acquisitions, namely event studies, accounting studies, clinical surveys and surveys of executives. Moreover, the measures available to management and shareholders to gauge a firm's value-creation performance can be separated into three broad categories (Institute of Management Accountants, 1997). The first category includes those appraisals which rely mainly on the financial statements produced by the firm, but require an estimation of the cost of capital and a variety of other adjustments to traditional income statements and balance sheets to reflect operating cash flows; and with an appropriate capital base these can be termed value-creation measures. This study have adopted accounting methods or key financial ratios such as Dividends Per Share, Earnings Per Share, Return on Equity, Return on Assets and Economic Value Add which are based on companies financial statements to investigate the long-term performance. The second category of measures includes those that rely exclusively on stock market data and, thus, are mainly applicable to exchange listed companies. Event Study methodology was chosen in order to simulate the market model based on stock market data such as share prices and market index to establish if M&A announcements creates value for shareholders in the short-term. The third set of measures is hybrid value/wealth-creation measures and requires both financial statements and stock market data; and for this study the Market Value Add was also included to assess the long-term value creation by M&A transactions.

Using financial market data, event study can be used to measure the impact of a specific event such as M&A announcement on the value of a firm. The usefulness of event study comes

from the assumptions that markets are efficient, and the effects of an event such as M&A announcement gets reflected immediately in companies share prices. The measure of M&A announcement event's economic impact can be constructed using share prices observed over relatively short time period. However, event study long-horizon methods have serious limitations and have been brought to light and still remain (Duso, Gugler and Yurtoglu, 2010). Inferences from event study long-horizon tests require extreme caution (Kothari and Warner, 1997) and even using the best methods the analysis of long-run abnormal returns is treacherous (Lyon, Barber, and Tsai, 1999). Brown and Warner (1980) also warned about the lack of reliability of event study long horizon methods which contrast with short-horizon methods, which are relatively straightforward and trouble-free. Event studies with long time periods are questionable due to overlapping transactions which makes it difficult to identify which M&A transaction created value or not because share prices over time are influenced by other events not only M&A announcements events. Short-horizon tests represent the cleanest evidence we have on efficiency, but the interpretation of long horizon results is problematic (Fama, 1991) and this has led to a decision to use event study methodology to only investigate M&A short-term performance and not long-term performance. Companies selected for this study have conducted minimum of two transactions with maximum delay of 2 years between announcements dates hence the decision to use accounting methods to measure long-term performance. Moreover, Event studies only assess the expected synergies not the realized ones and they do not take into consideration multiple motives for conducting M&A (Wang and Moini, 2012). Accounting methods take a long-term perspective of acquisition performance by comparing pre and post-merger performance after the completion of an M&A transaction as opposed to M&A transaction announcements. However, the down side of accounting methods is that they reflect the past rather than present performance expectations. Moreover, accounting data can also be distorted by manipulation. Moreover, According to Bruner (2002), using stock price data is a better way of measuring the value created by companies" for the shareholders, and it also reflect the present value of expected future cash flows suggesting that market-based measures are forward-looking which can be confirmed by comparing both short-term and long-term results.

In a nutshell, this study is using the event study methodology to study the short-term performance and the accounting methods or financial ratios to study the long-term performance to make the results more robust, reliable and credible given the available data for analysis. A mini survey was also conducted with M&A executives of selected companies for

this study that agreed to participate in the survey and have been included as appendix. It is also imperative to benchmark or compare individual companies share price performances with the overall JSE performance using the JSE Index and TMT sector indexes to assess if TMT sector companies are maximizing shareholders value in relation to the JSE average performance. The study concludes analysis by validating both short-term and long-term M&A performance results by benchmarking case study companies share prices performance with the JSE index and TMT sector indexes namely telecommunications index, media index and technology index.

Short-Term Performance

Event Study methodology was used in order to simulate the market model to test if there was short term positive or negative Cumulative Abnormal Returns (CAR) during acquisition announcement periods for selected transactions. An event period (-10,0, +10) of 21 days using 126 observations(estimate window) prior the announcement date was used to study the short-term performance of selected M&A transactions as recommended by (Benninga, 2008). The event study method assumes that the stock market is efficient, meaning that the information is correctly reflected in the market prices.

Long -Term Performance

Due to the fact that companies selected as case studies have conducted more than one M&A transactions since 2005 to 2013; some of these transactions overlap which only lead to gaps of maximum of 2 years between the transactions; and does not meet the long term criteria of three to five years. This prevents or limits the study to use the event study methodology to evaluate the long term performance of selected M&A transactions. Bruner (2002) also used accounting studies as an alternative method to event study methodology for studying M&A returns with measures such as return on assets, return on capital and return on equity. Erasmus (2008) argued that value based financial performance are often advanced as improvements over traditional measures and in light of this the Market Value Add and the Economic Value Add (EVA) methodologies together with key traditional measures such as Return on Equity, Return on Assets, Price/Earnings and Return on Invested Capital financial ratios were used to study the long term performance of M&A within the TMT sector in South Africa.

Event Study Methodology (Short-Term Performance)

According to Benninga (2008), event studies are one of the most powerful and widely used applications of the Capital Asset Pricing Model (CAPM). An event study is an attempt to determine whether a particular event in the capital market or in the life of a company has affected company's stock market performance. Since the study is based on JSE listed companies, event study was chosen to assess and evaluate if M&A announcements or events for selected transactions have positively or negatively affected company's share prices and as a result this positively or negatively affects shareholders value. The event-study methodology aims to separate company specific events from market and industry specific events, and has often been used as evidence for or against market efficiency. An event study aims to determine whether an event or announcement caused an abnormal movement in a company's stock price. The challenge usually lies in getting the announcement date right for an M&A transaction which becomes the event date. The first step in the event study is to identify the event and identifying the actual date of the takeover is important (Hendricks, 2013). It is not meaningful to use the completion date of the acquisition as event window because all information is already reflected in the stock price on the announcement date. Therefore, it is chosen to use the day that the takeover plans becomes news (Announcement Date) as event date. Sometimes it is not possible to exactly determine the announcement date, for example when the news of the acquisition is experiencing some lag and in this case, the abnormal returns are spread out around the event date ($t=0$). The abnormal returns (AR) are calculated as the difference between a stock's actual return and its expected return, where the stock's expected return is typically measured using the market model, which relies only on a stock's market index to estimate its expected return. Furthermore, (Benninga, 2008) suggested that using the market model we can measure the correlation between an individual stock's return and its corresponding market returns. In some cases, we sum the abnormal returns to arrive at the cumulative abnormal return (CAR), which measures the total impact of an event through a particular time period, also called the event window.

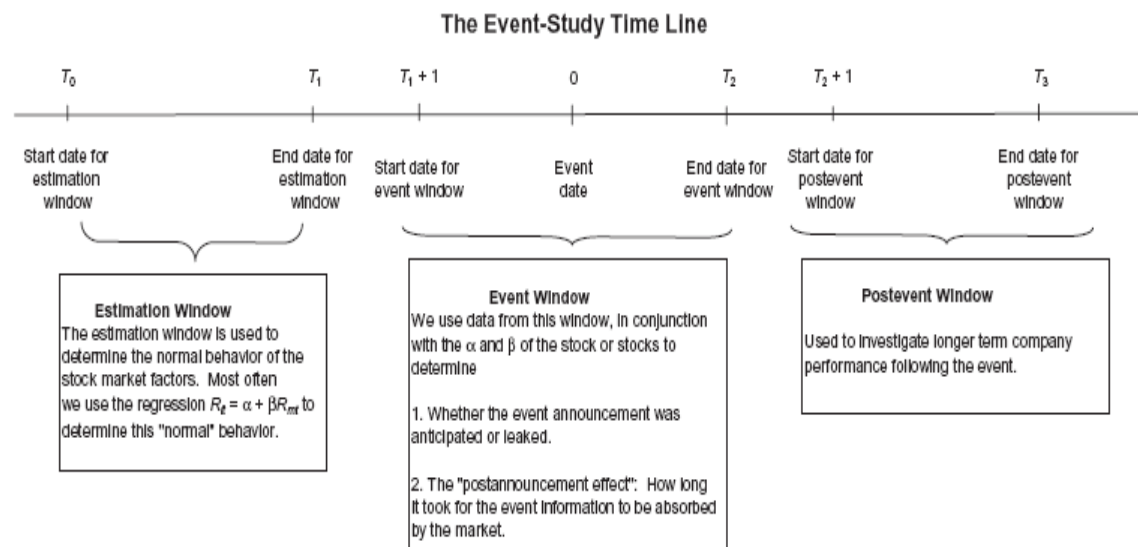


Figure 1-10: Event Study Time Line, Source *Financial Modelling*, Simon Benninga (2008)

Event study is composed of three time frames: the estimation window (sometimes referred to as the control period), the event window, and the post-event window. An event is defined as a point in time when a company makes an announcement or when a significant market event occurs. For this study we are interested in studying the impact of mergers and acquisitions using the stock market data for the selected companies and transactions, and the announcement date is our point of interest. Announcements dates for the selected transactions were obtained from the McGregor BFA database by reviewing JSE SENS (Johannesburg Stock Exchange Security News Service) and news briefs announcements published relating to companies selected as case studies.

Tong (2010) suggested that there are many ways to calculate the expected return of a security, such as the Market Model, the Zero-One Model and the Mean-Adjusted Returns Model and the most prevalent approach is to use the Market Model, which is assumed to have a linear relationship between the expected return of a company's share price and the stock market index. According to the Market Model, the return of a security not only depends on the return of the market portfolio, but also depends on conditions called systematic risk that are unique to the firm.

A common practice is to expand the event date to two trading days, the event date and the following trading day. This is done to capture the market movement if the event was announced immediately before the market closed or after market closing (Benninga, 2008). Moreover, event window often starts a few trading days before the actual event day. The length of the event window is centered on the announcement and is normally three, five, or ten days and enables investigation of pre-event leakage of information. Benninga (2008) suggests that the usual length of the estimation window is 252 trading days (or one calendar year), but there may not always be data available for this many days to include for studies for some of the companies. Nonetheless, Benninga (2008) recommends that a minimum of 126 observations will be sufficient and if there are less than 126 observations in the estimation window the parameters of the market model will not indicate the true stock price movements as well as the relationship between the stock returns and the market returns. The estimation window selected should be a period that reflects the stock's normal price movements. For this study an Event Window of 21 days has been chosen (-10, 0, 10), 10 days prior event announcement date and 10 days post event announcement date and an estimation window of 126 observations from the 2nd day prior the announcement date.

Post event window will be used to investigate the short term impact and performance of selected companies following the announcements of selected mergers and acquisitions transactions for this study.

- Estimation Window

Estimation window is used to estimate a model of the stock's returns under "normal" circumstances. The model used for this study is the market model, which is essentially a regression of the stock returns and the returns of the market index. The market model make it easier to run a regression using the stock returns calculated from companies share prices movements obtained from McGregor Database and the returns of market index calculated using the JSE Index obtained from McGregor Database. With the market model we can obtain the difference between a stock's actual return and its expected return which becomes the Abnormal Returns (AR) and then sum the AR to obtain Cumulative Abnormal Returns (CAR) which helps us to conclude if an event generated positive or negative returns to its shareholders. With the market model, the expected share price return is a linear function of the market return using Ordinary Least Squares β (beta) and α (alpha) and β (beta) are

calculated over the estimation period using OLS. The market model for a stock i can be expressed as

$$R_{it} = \alpha_i + \beta_i R_{Mt}$$

Here R_{it} and R_{Mt} represent the stock and the market return on day t . The coefficients α_i and β_i are estimated by running an ordinary least-square regression over the estimation window. In general, the market index should be a broad-based value-weighted index or a float. For this study, an ordinary least-square regression was done on selected companies stock returns for the defined event date together with the Johannesburg Stock Exchange Index (JSE All Share Index) as the market index for the same event date and both data were obtained from the McGregor BFA database.

Given the equation $R_{it} = \alpha_i + \beta_i R_{Mt}$ in the estimation window, we can also measure the impact of an event on the stock's return in the event window; since we are interested in establishing if M&A transactions announcements dates or event dates create positive or negative returns for shareholders. For a particular day t in the event window, we define the stock's abnormal returns (AR) as the difference between its actual return and the return that would be predicted by the equation

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{Mt})$$

We interpret the abnormal return during the event window as a measure of the impact the event had on the market value of security. This interpretation assumes that the event is exogenous with respect to the change in the security's market value. The cumulative abnormal return (CAR) is a measure of the total abnormal returns during the event window which is the final value the study has used to conclude if an M&A transaction created either positive or negative returns to its shareholders. The variable CAR_t is the sum of all the abnormal returns from the beginning of the event window T_i until a particular day t in the window:

$$CAR_t = \text{SUM}(AR_{it}) \text{ (For the event window)}$$

Finally, the standard error of the regression prediction is used to measure significance of abnormal returns.

- Running Regression

The ordinary least-square (OLS) regression for this study was done using Microsoft Excel Application based on the estimation window with 126 observations prior announcement dates.

- Significant Test

Sometimes a result value may only be generated by chance. The result value always needs to be tested to see whether it is statistically significant and this leads to the Significance Test. Significance Test is a basic method to check whether the final value generated from significance test is located in the accept region. The formula is mean of the tested sample times the square root of tested sample size then divided by standard deviation of the tested sample. 95% significance level and the accept region from -1.96 to +1.96 was chosen for this study. If the final value is between -1.96 to +1.96, the result value will become statistically significant (Tong, 2010).

- Example: Adapt IT Event Study Simulation using Microsoft Excel Spread Sheet Application.

Adapt IT announced that it will acquire ITS Holdings on the 01st June 2009. The event period has 21 days total, with 10 days before and 10 days after (-10, 0, +10) indicating event period from 18 May 2009 until 15 June 2009 and the actual event date was the 01st June 2009.

Date	Event Date	Share Price	Daily Return	FSTE/JSE Index	Market Return	Expected Return	Abnormal Return	Cummulative Abnormal Returns	AR t-test	AR Significant?
15-Jun-09	1-Jun-09	47	0	22618.89	0.030536261	-0.00511	0.00510952	-0.005333688	0.068779715	no
12-Jun-09	1-Jun-09	47	0	22915.06	0.013093923	0.0016872	-0.0016872	0.003422317	-0.022711557	no
11-Jun-09	1-Jun-09	47	0	23057.32	0.006208144	0.0043704	-0.0043704	-0.006057564	-0.058829916	no
10-Jun-09	1-Jun-09	47	0	23286.73	0.009949552	0.0029125	-0.0029125	-0.007282824	-0.039204902	no
9-Jun-09	1-Jun-09	58	0.23404255	23049.43	-0.010190353	0.0107603	0.22328222	0.220369765	3.00562438	yes
8-Jun-09	1-Jun-09	58	0	22949.09	-0.004353253	0.0084858	-0.0084858	0.214796424	-0.114228205	no
5-Jun-09	1-Jun-09	58	0	23166.38	0.009468349	0.0031	-0.0031	-0.011585768	-0.04172898	no
4-Jun-09	1-Jun-09	58	0	22862.54	-0.013115558	0.0119002	-0.0119002	-0.015000155	-0.160189615	no
3-Jun-09	1-Jun-09	58	0	23063.18	0.008775928	0.0033698	-0.0033698	-0.01526997	-0.045360978	no
2-Jun-09	1-Jun-09	58	0	23661.87	0.025958693	-0.003326	0.00332579	-4.39962E-05	0.044768741	no
1-Jun-09	1-Jun-09	58	0	23548.65	-0.004784913	0.008654	-0.008654	-0.005328218	-0.116492418	no
29-May-09	1-Jun-09	58	0	22770.62	-0.033039261	0.0196638	-0.0196638	-0.028317815	-0.264696532	no
28-May-09	1-Jun-09	58	0	22315.32	-0.019995064	0.0145809	-0.0145809	-0.03424472	-0.196275072	no
27-May-09	1-Jun-09	58	0	22521.68	0.009247459	0.003186	-0.003186	-0.017766951	-0.04288763	no
26-May-09	1-Jun-09	56	-0.0344828	22440.84	-0.00358943	0.0081882	-0.0426709	-0.045856964	-0.574397551	no
25-May-09	1-Jun-09	58	0.03571429	22407.28	-0.001495488	0.0073722	0.02834206	-0.014328857	0.381515369	no
22-May-09	1-Jun-09	58	0	22425.54	0.000814914	0.0064719	-0.0064719	0.021870132	-0.087119331	no
21-May-09	1-Jun-09	48	-0.1724138	22015.59	-0.018280496	0.0139128	-0.1863266	-0.192798523	-2.508160895	yes
20-May-09	1-Jun-09	44	-0.0833333	22674.2	0.029915619	-0.004868	-0.0784657	-0.264792251	-1.056234119	no
19-May-09	1-Jun-09	42	-0.0454545	22398.38	-0.012164487	0.0115296	-0.0569841	-0.135449792	-0.767069096	no
18-May-09	1-Jun-09	42	0	21945.12	-0.020236285	0.0146749	-0.0146749	-0.071659036	-0.197540363	no

Figure 1-9: Event Study of ITS Holdings Acquisition [Event Date: 01 June 2009]

Accounting Methods or Key Indicators (Long-term Performance)

- Economic Value Add (EVA)

EVA is the invention of Stern Stewart & Co a global consulting firm that launched EVA (Stewart, 1999). EVA is calculated as a company's net operating profit after taxes (NOPAT) minus a cost for the equity capital employed by the company. The cost of equity capital employed by a company is equal to the company's equity capital (reported on its balance sheet) multiplied by a percentage return that the company's shareholders require on their investment. EVA is a financial performance method to calculate the true economic profit of a corporation and it is expressed as a formula:

$$\text{EVA} = \text{NOPAT} - (\text{Equity Capital} * \% \text{ Cost of Equity Capital})$$

Where:

EVA = Economic Value Add

NOPAT = Operating Income * (1 - Tax Rate)

Equity Capital = Capital raised from owners.

% Cost of Equity Capital = the return rate that stockholders require for their investment in a company

The EVA calculation produces either a positive or negative value. A positive EVA reflects or indicates that the company is increasing its value to its shareholders, whereas a negative EVA

reflects that it is diminishing its value to its shareholders. EVA is based on the principle that, because a company's management employs equity capital to earn a profit it must pay for the use of this equity capital. The idea is that until a business returns a profit that is greater than its cost of capital, it operates at a loss; this means that the enterprise still returns less to the economy than it devours in resources and until then it does not create value instead it destroys it (Ehrbar, 1998). Including a cost for the use of equity capital sets EVA apart from more popular measures of company performance, such as return on assets (ROA), return on equity (ROE) and the efficiency ratio, which do not consider the cost of equity capital employed. ROA and ROE may indicate that a company is performing well, when in fact it may be diminishing its shareholders value. In essence, positive EVA number tells us that a company profit was more to cover its cost of capital and a negative EVA number indicates that the project did not make enough profit to cover the cost of doing business. This study observed EVA values from McGregor Database post M&A transactions to establish if companies are recovering their cost of capital incurred when financing the transactions in order to conclude if M&A are creating or destroying value for shareholders in long-term.

- Market Value Add (MVA)

Market value added (MVA) is a value based performance indicator that is forward-looking and incorporates the market's view of the current and future performance of the enterprise. Moreover, MVA is a criterion used to gauge the overall success or failure of the firm's ability to create value. The calculation of MVA is based on the difference between the total market value of debt and equity (MV) and total capital (TC) provided by lenders and shareholders for management (Stewart, 1991). MVA is an external value creation indicator, whereas EVA is an internal value measurement. MVA is calculated as follows:

$$\text{MVA} = [\text{Present Value of all future expected EVA}]$$

$$\text{MVA} = [\text{Market Value}] - [\text{Invested Capital}]$$

Where,

Market value: company's market value (Total Shares x Price per Share)

Invested Capital: book value of the adjusted invested capital

According to (Pinto and Santos, 2011), EVA increases its strength when analyzed in combination with MVA and they usually have a strong positive correlation. (Makhele, 2013) argued that traditional accounting rate of returns and profitability measures are criticized for their deficiencies in measuring performance, particularly because they ignore capital costs and have the potential of manipulation of accounting data and EVA overcomes these flaws hence the decision to also use the EVA and MVA for this study. Both MVA and EVA values for this study were obtained from the McGregor BFA database.

Interpretation of Financial Ratios

Osae (2011), suggested that key financial parameters that impact directly on shareholders value are centred on earnings, dividends, share price performance and the level of debt and this can be measured using ratios such as Earnings Per Share(EPS), Dividends Per Share (DPS), Return on Equity (ROE), Price/Earnings (P/E) ratio and Debt/Equity (D/E) ratio. In addition to the Market Value Add and the Economic Value Add, this study will also do comparison of the MVA and EVA results with other key financial ratios such as the EPS, ROE, DPS, P/E and D/E.

- Earnings Per Share (EPS)

EPS serves as an indicator of a company's profitability. This is the most important factor in the fundamental analysis of a company stock or shares. It is calculated as:

EPS = Profit after Tax /Number of Equity Shares

- Dividends Per Share (DPS)

DPS is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

DPS can be calculated by using the following formula:

$DPS = \frac{D - SD}{S}$

D: Sum of dividends over a period (usually 1 year)

SD: Special one time dividends

S: Shares outstanding for the period

- Return on Assets (ROA)

Return on Assets is the ratio of annual net income to average total assets of a business during a financial year. It measures efficiency of the business in using its assets to generate net income. It is a profitability ratio.

$ROA = \text{Annual Net Income} / \text{Average Total Assets}$

- Return on Equity (ROE)

The amount of net income returned as a percentage of shareholders equity. Return on Equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

ROE is expressed as a percentage and calculated as:

$\text{Return on Equity} = \text{Net Income} / \text{Shareholder's Equity}$

- Price/Earnings (P/E) ratio

P/E is short for the ratio of a company's share price to its per-share earnings. To calculate the P/E, you simply take the current stock price of a company and divide by its earnings per share (EPS):

$P/E \text{ Ratio} = \text{Market Value per Share} / \text{Earnings per Share (EPS)}$

- Debt/Equity (D/E) ratio

The debt-equity ratio is another leverage ratio that compares a company's total liabilities to its total shareholders' equity. This is a measurement of how much suppliers, lenders, creditors and obligors have committed to the company versus what the shareholders have committed.

$D/E = \text{Total Liabilities} / \text{Shareholders Equity}$

Lastly, the methodologies chosen to perform the performance assessment of M&A acquisitions for this study were chosen due to the fact that they are biased and directly focus on shareholders value creation. For this study share prices data, JSE index data, all the EVA calculations and the financial ratios were obtained from McGregor BFA database.

3.3.2 Measuring

3.2 Data Collection, Frequency and Choice of Data

Stock price market data for selected companies and JSE All Share Index data were downloaded from McGregor BFA database for defined event periods for all selected transactions announced between 2005 and 2013. All financial ratios data, including Market Value Add and Economic Value Add data for 2005 and 2013 period from selected companies were obtained from McGregor BFA database.

3.3 Sampling

The unit of analysis is an acquisition of a target company by selected JSE listed acquiring company. The study population was defined as JSE listed company's mergers and acquisitions transactions within the TMT sector that occurred between 2005 and 2013 period. The event date of an acquisition was defined as the announcement date of an acquisition, rather than the completion date or effective date, due to the expected movements in the share price. Announcements dates were obtained from McGregor Database research news domain by reviewing JSE Security Exchange News Service (SENS) postings. Only transactions with a valid announcement date, complete share price data for defined event period, non-overlapping transactions were included in a sample. A final sample of 45 M&A transactions involving 10 selected companies was created. Selected acquiring firms with multiple non overlapping acquisitions based on the defined event periods were considered. Deals of all sizes, value and different payment methods were considered.

3.4 Data Analysis Methods

Short-term performance analysis for each M&A transaction was simulated using Microsoft Excel 2007 Application by running Ordinary Least Square(OLS) regression using the market model based on Share Price and JSE index data for defined event period obtained from McGregor Database; in order to calculate the Abnormal Returns and arrive at Cumulative Abnormal Returns. Long-term performance analysis was achieved by analysing selected financial ratios values, economic value add and market value add values from the 3rd and the 5th year post the M&A transactions. Benchmark or comparison analysis graphs comparing case studies companies share price performances with the JSE Index and TMT sector indexes were generated from McGregor BFA database.

3.5 Research Reliability and Validity

The calculated Abnormal Returns (AR) and Cumulative Abnormal Returns (CAR) results can be reproduced using other event study tools such as Eventus and SAS software applications based on the same event periods, stock market prices and JSE All share index data obtained from McGregor BFA database. Financial ratios, market value add and economic value add values or data were obtained from McGregor Database and can also be reproduced by applying appropriate formulas to calculate the values using original companies financial statements published annually.

3.6 Limitations

Due to the fact that companies selected have engaged in more than one M&A transactions since 2005, the event study methodology was used to assess and evaluate short-term M&A impact on shareholders value creation only. The study could not use the event study methodology for long-term value assessment due to overlapping transactions. For example, AdaptIT announced an acquisition of BI Planning Services on the 03th January 2012 and during the same year on the 29th October 2012(10 months later) it announced an acquisition of Swicon360. This only allow an event period (BI Planning Services) of +/-10 months to be used on the event study methodology; preventing the study to include event period of more

than three years to five years to assess the long-term performance of the BI Planning Services transaction without overlapping transactions.

M&A transactions without a verifiable announcement date and a complete required data for analysis from McGregor Database were excluded from the study. For example some transactions did not have all 126 observations data for the estimation window and some transactions did not have the associated market index (JSE index) values for defined event periods. The overlapping of transactions existed for all selected companies leading to a decision to use economic value add, market value add and key financial ratios in order to assess long-term impact of the transactions.

None of the selected companies engaged in a pure merger transaction with another JSE listed company except for acquisitions between 2005 and 2013 period, and therefore all our M&A transactions investigated were acquisitions. The data obtained from McGregor BFA database excludes weekends and public holidays. This study is using the “close” share price data meaning the last trading company share or stock price before close of the JSE trading hours which reflects the trading activity on a particular date. Similarly the study is also using the “close” JSE All share index price data.

Companies share prices performance benchmark was limited only to 5 companies because McGregor BFA comparative tool allows only maximum of 5 items (companies or indexes) to be added on the graph. Ten selected case studies companies were split into two groups; (Group A:AdaptIT, Datatec, EOH, Naspers and MTN) and (Group B:Business Connexion, Convergenet, Mustek, Pinnacle and Telkom Group) for benchmarking in order to validate or strengthen our findings on individual companies M&A performance with overall JSE performance and the TMT sector performance.

4 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

Acquiring Company	Target Company	Announcement Date	CAR	CAR in Percentages	CAR T-Test	Significance?
Adapt IT	ITS Holdings	1-Jun-09	4.541017116	454%	106.3641142	yes
Adapt IT	BI Planning Services	3-Jan-12	0.232799001	23%	5.647682168	yes
Adapt IT	Swicon360	29-Oct-12	-0.798677301	-80%	-20.21459648	yes
Adapt IT	Aquilon	11-Nov-13	-0.020683875	-2%	-0.475801534	no
Business Connexion	UCS	15-Dec-10	2.328382121	233%	109.9216135	yes
Business Connexion	Integr8 IT	5-Nov-12	-0.656809384	-66%	-40.87800873	yes
Pinnacle Holdings	RentNet Rentals (Pty)	3-May-06	-1.620941605	-162%	-54.77159495	yes
Pinnacle Holdings	Datanet Infrastructure Group	30-Oct-06	-0.333001382	-33%	-13.78675017	yes
Pinnacle Holdings	Axiz Technology Holdings	20-Jul-10	-0.312912724	-31%	-15.34971206	yes
Pinnacle Holdings	Tri Continental Distribution S.A. (Pty)	3-Apr-08	-0.040607018	-4%	-1.55461635	no
Pinnacle Holdings	Explicx Business Solutions	14-Jun-06	-1.428965573	-143%	-45.84305988	yes
Pinnacle Holdings	PrecisionICT (Pty) Ltd	20-May-13	0.243834331	24%	19.81095189	yes
Telkom SA	Mweb Africa	10-Nov-08	1.880982869	188%	75.15883224	yes
Telkom SA	Africa Online	12-Feb-07	7.791048898	779%	564.58556	yes
Telkom SA	Multi-Links (Nigeria)	22-Mar-07	4.807515769	481%	337.7483844	yes
Naspers	Abril	8-May-06	-1.85949175	-186%	-114.2233492	yes
Naspers	Markafoni	7-Jul-11	-0.638989736	-64%	-41.24934076	yes
Naspers	Gadu Gadu	4-Oct-07	1.237832664	124%	71.72617415	yes
Naspers	Polish Financial Portal Bankier	9-Jun-09	-0.243974033	-24%	-9.195541069	yes
Naspers	BuscaPe	29-Sep-09	0.256581785	26%	10.67707785	yes
Naspers	Digital Sky Technologies	14-Jul-10	1.531611473	153%	94.89544325	yes
Naspers	Mcgregor BFA acquires Inet Bridge	18-Nov-13	-3.287442467	-329%	-177.4781381	yes
Datatec	Comztek Holdings (Pty) Ltd	29-Nov-12	-1.017630106	-102%	-110.9664223	yes
Datatec	European subsidiaries of 2e2	4-Mar-13	1.003460325	100%	96.36824452	yes
Datatec	Cibercall	9-Nov-12	-0.049570489	-5%	-5.405092584	yes
Datatec	Tripple Access IT	17-Jul-12	-0.132669957	-13%	-12.22131275	yes
Datatec	AFINA GROUP	2-Jul-12	13.45255528	1345%	1323.956858	yes
Datatec	INCA SOFTWARE	17-Mar-11	2.679072585	268%	179.5293819	yes
Datatec	Direct Visual Limited	24-Jan-11	0.750774138	75%	54.45811656	yes
Datatec	Biodata IT SA (Pty) Ltd	17-Sep-10	-0.373716642	-37%	-35.2976444	yes
Datatec	CSF SOLUTIONS	5-Dec-06	9.779674945	978%	524.2864278	yes
EOH	TSS Managed Services	5-Jul-11	0.771427359	77%	72.86153622	yes
EOH	Highveld PFS	19-Dec-08	1.740814212	174%	164.6608169	yes
EOH	Bromide Technologies	19-Sep-06	8.637523078	864%	595.8191245	yes
Convergenet Holdings	Chrystalpine	15-Dec-08	0.309590007	31%	19.88056279	yes
Convergenet Holdings	SIZWE AFRICA IT GROUP	28-May-07	-4.591076025	-459%	-36.95837128	yes
Convergenet Holdings	Telesto	1-Apr-09	-1.024287887	-102%	-31.51225911	yes
MTN Group	Telecel Cote d'Ivoire and Telecel Zambia	22-Jun-05	-13.01509494	-1302%	-612.137601	yes
MTN Group	100% Telecel Zambia	12-Aug-05	3.05256257	305%	148.2006463	yes
MTN Group	Libertis Telecom(Congo)	12-Dec-05	8.59095006	859%	363.1876248	yes
MTN Group	Mascom Wireless Botswana	10-Nov-05	6.80625162	681%	328.4511774	yes
MTN Group	Investcom	2-May-06	-8.451482806	-845%	-345.2079653	yes
MTN Group	Verizon Business South Africa	25-Jun-08	0.101066627	10%	4.904421141	yes
Mustek	Rectron Group	22-Mar-07	6895193.936	689519394%	493710236.6	yes
Mustek	Sizwe Africa IT	12-Dec-13	-0.22787575	-23%	-12.87763129	yes

Table 1-22: 45 M&A Transactions with 21 Days Event Period (-10, 0, +10) Cumulative Abnormal Returns Results

Case Study 1: Adapt IT

Short-Term Performance

Acquiring Company	Target Company	Announcement Date	CAR	CAR in Percentages	CAR T-Test	Significance?
Adapt IT	ITS Holdings	1-Jun-09	4.541017116	454%	106.3641142	yes
Adapt IT	BI Planning Services	3-Jan-12	0.232799001	23%	5.647682168	yes
Adapt IT	Swicon360	29-Oct-12	-0.798677301	-80%	-20.21459648	yes
Adapt IT	Aquilon	11-Nov-13	-0.020683875	-2%	-0.475801534	no

Table 1-23: Adapt IT Event Study Results

From the results, the study found that Adapt IT two acquisitions (ITS Holdings and BI Planning Services) produced significant positive Cumulative Abnormal Returns (CAR) of 4.54 and 0.23 respectively indicating that the deals created short-term shareholders value. However Adapt IT other two acquisitions (Swicon360 and Aquilon) produced negative Cumulative Abnormal Returns (CAR) of -0.79 and -0.02 respectively indicating that the deals failed to create shareholders value in a short term.

Long-term Performance

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Debt / Equity	0.9	1.04	1.11	1.68	0.3	0.27	0.21	0.29	0.34
Dividend / Share (c)	4.7	4.1	2.8	2.55	1.9	4.4	4.3	3.7	3
Earnings/ Share (C)	22.3	17.5	11.5	9.15	9.5	8.2	6.8	5.9	5.8
Price / Earnings	11.3	6.4	6.09	4.92	4.84	6.95	10.74	10	6.21
Price / Share (C)	252	112	70	45	46	57	73	59	36
Return On Assets %	21.79	18.52	16.05	12.43	35.31	38.81	39.11	41.16	57.31
Return On Equity %	26.12	25.86	22.94	23.02	28.96	25.94	37.24	37.42	50
Return on Capital Employed	25.1	24.34	20.49	17.73	27.71	25.32	36.24	36.86	49.46
EVA	16885.835	9839.1125	9113.2239	6815.4946	7501.5273	5013.8185	4245.2225	3217.0509	4041.1284
MVA	2.82	1.9	1.41	1.08	1.44	1.94	3.53	4.17	2.87

Table 1-24: AdaptIT Economic Value Add and Financial Ratio, Source: McGregor BFA

From the financial ratios it shows that following AdaptIT first acquisition of ITS Holdings on 01st June 2009, in 2010 AdaptIT Debt/Equity ratio was high from 0.3 in 2009 to 1.68 in 2010 due to the fact that part of the acquisition was financed through Debt. ROA (from 35.31 to 12.43) and ROE (from 28.96 to 23.02) also decreased significantly in 2010 compared to 2009. However, by comparing 2008 and 2013 AdaptIT financial ratios; it is evident that AdaptIT has achieved significant growth through M&A. In 2013 post three acquisitions ROE, P/E, E/S and D/S were up compared to pre-acquisitions period in 2008. AdaptIT EVA have also been positive since 2005 indicating that AdaptIT profits covered more than invested capital since 2005 and it was the highest in 2013 post-acquisitions made from 2009. It is without a doubt that the M&A strategy adopted and selected acquisitions have added growth to Adapt IT with all the key indicators such as share price, market capitalization and dividends per share higher post-acquisitions.



Figure 1-12: Adapt IT Share Price and Key TMT JSE Index's Performance, Source: *McGregor BFA*

When comparing AdaptIT share price performance with JSE All share index and TMT sector indexes; Adapt IT share price rose above the JSE All share index, Technology index and Telecommunications index after 2012 , suggesting that its M&A investments started paying off from 2012. Overall, Adapt IT has managed to create long-term value for its shareholders and its management team has been successful in executing four M&A transactions despite two M&A transactions namely Swicon360 and Aquilon acquisitions generating negative CAR of -0.79 and -0.02 respectively.

Case Study 2: MTN Group

Short-Term Performance

Acquiring Company	Target Company	Announcement Date	CAR	CAR in Percentages	CAR T-Test	Significance?
MTN Group	Telecel Cote d'Ivoire and	22-Jun-05	-13.01509494	-1302%	-612.137601	yes
MTN Group	100% Telecel Zambia	12-Aug-05	3.05256257	305%	148.2006463	yes
MTN Group	Libertis Telecom(Congo)	12-Dec-05	8.59095006	859%	363.1876248	yes
MTN Group	Mascom Wireless Botsw	10-Nov-05	6.80625162	681%	328.4511774	yes
MTN Group	Investcom	2-May-06	-8.451482806	-845%	-345.2079653	yes
MTN Group	Verizon Business South	25-Jun-08	0.101066627	10%	4.904421141	yes

Table 1-25: MTN Group Event Study Results

MTN shareholders earned statistically significant positive Cumulative Abnormal Returns of four acquisitions and lost out on two acquisitions that generated statistically significant negative Cumulative Abnormal Returns of -13.01 and -8.45 within short-term.

Long-term Performance

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt / Equity	0.81	0.86	0.89	1	1.09	1.1	1.23	1.26	0.99	0.53	0.55
Dividend / Share (c)	879.75	700.4	749	500	192	181	136	65	60.57	#N/A	#N/A
Earnings/ Share (C)	1,386.00	1,089.10	1,068.60	760.6	803.2	836.5	584.8	606.5	425.6	263.7	150.6
Price / Earnings	14.47	15.53	13.26	16.8	14.21	11.74	21.92	13	13.81	12.32	8.19
Return On Assets%	21.43	28.02	26.73	25.81	22.68	26.42	30.38	29.53	26.2	28.15	21.88
Return On Equity %	22.97	23.26	23.35	19.9	20.93	20.05	22.42	27.42	35.43	18.64	11.31
Return on Capital Employed	15.57	16.41	16.46	13.23	14.46	13.26	13.16	13.79	21.25	14.43	8.77
EVA	15507673	17950930	12436031	11014636	12914577	10755430	7036144.2	7009631.4	5174299.9	2038663	N/A
MVA	2.76	2.96	2.44	2.68	2.33	2.03	3.24	2.58	3.64	2.37	1.12

Table 1-26: MTN Key Financial Indicators, Source: McGregor BFA

MTN have been growing organically like any other telecommunications services provider due to high growth voice markets in many parts of the world for the past two decades. However, MTN acquisition of Verizon Business South Africa in 02nd June 2008 was followed by gains whereby most of the key shareholders value creation financial indicators went up from 2009 until 2013 such as dividends per share (from 192 to 879), earnings per share (from 803 to 1386) and return on equity (from 20.93 to 22.97). MTN EVA and MVA have been positive from 2005 until 2013 which shows that the investment made through Verizon deal and other M&A transactions not investigated in this study seems to be creating value for shareholders.



Figure 1-13: MTN Group Share and Key TMT Indexes performance, Source: McGregor BFA

It is interesting to note that between 2008 and 2010, MTN Group share price outperformed all TMT sector indexes and the JSE index during the same period which MTN acquired Verizon Business South Africa. MTN Group share price performance remained high from 2005 until 2013 which indicates that its M&A strategy created value despite the failed merger talks with India's largest telecommunications company Bharti Airtel. It is evident that MTN Group M&A strategy has been successful and created shareholders value both short-term and long-term.

Case Study 3: Telkom Group

Short-Term Performance

Acquiring Company	Target Company	Announcem	CAR	CAR in Per	CAR T-Test	Significance?
Telkom SA	Mweb Africa	10-Nov-08	1.880982869	188%	75.15883224	yes
Telkom SA	Africa Online	12-Feb-07	7.791048898	779%	564.58556	yes
Telkom SA	Multi-Links (Nigeria)	22-Mar-07	4.807515769	481%	337.7483844	yes

Table 1-27: Telkom Group Event Study Results

Telkom Group MWeb Africa acquisition generated statistically significant positive short-term CAR of 1.8; Africa Online acquisition generated statistically significant negative short-term CAR. The controversial Multi-Links deal which cost Telkom Group shareholders dearly according to reports, also produced statistically significant positive short-term CAR.

Long-Term Performance

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt / Equity	0.95	0.53	0.58	0.68	0.78	0.98	0.72	0.8	0.99	1.23	1.72
Dividend / Share (c)	#N/A	#N/A	300	2,200.00	375	660	1,100.00	900	900	200	#N/A
Earnings/ Share (C)	87	310.8	332.4	67.8	994.6	1,634.80	1,710.70	1,727.20	1,274.10	863.6	314
Price / Earnings	16.57	8.1	10.63	50.28	10.23	8.6	9.64	9.11	8.81	8.44	9.09
Price / Share (C)	1,442.00	2,517.00	3,532.00	3,409.00	10,176.00	14,061.00	16,491.00	15,730.00	11,229.00	7,289.00	2,853.00
Return On Assets %	-27.28	2.65	7.73	81.49	6.48	23.11	27.15	27.58	19.65	15.86	10.54
Return On Equity %	-65.11	-0.73	4.12	125.17	10.98	24.3	27.25	31.48	25.04	20.51	8.88
Return on Capital Employed	-40.78	-0.5	2.69	84.24	5.83	16.46	21.32	21.94	16.55	11.74	4.17
EVA	-1591178.4	-1640821.7	-1868722.8	15207630	1827867.6	4392009.6	7441733.3	7805597	5327334.8	4807836	N/A
MVA	0.6	0.54	0.73	0.7	1.34	1.7	2.32	2.41	1.78	1.55	0.95

Table 1-28: Telkom Group Key Financial Indicators, Source: McGregor BFA

From 2009 post-acquisitions, Telkom Group key financial indicators were positive until 2011. However, Telkom EVA was negative from 2011 until 2013. Telkom MWeb Africa and Africa Online acquisitions destroyed shareholders value from 2010.

Price history - J203 (01 Jan 2003 - 31 Dec 2013)

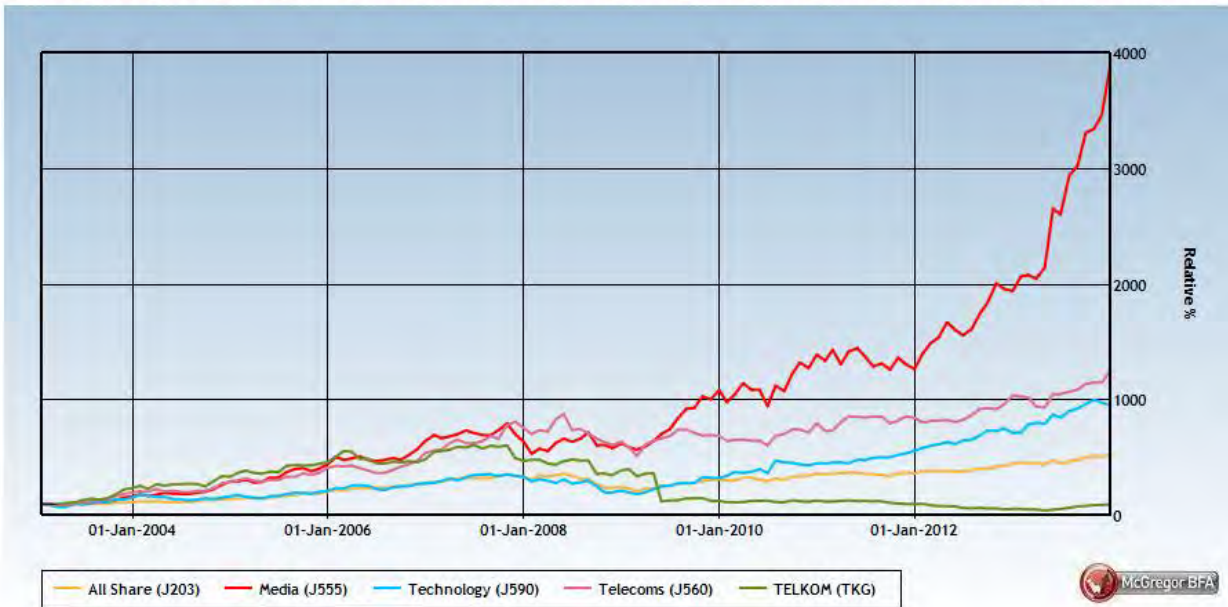


Figure 1-14: Telkom Group Share and Key TMT Indexes Performance, Source: McGregor BFA

Telkom management failed to effectively leverage on its acquisitions of MWeb Africa and Africa Online to use these companies as vehicles to lay the ground or intensify its campaign to become a prominent player within the African continent. Instead its competitors, more especially MTN and Vodacom today have bigger market shares in Africa compared to Telkom. It is also evident that from 2009, JSE All share index and TMT sector indexes

outperformed Telkom share price. Overall, Telkom Group acquisitions destroyed value for shareholders in the long-term.

Case Study 4: Naspers

Short-Term Performance

Acquiring Company	Target Company	Announcement	CAR	CAR in Per	CAR T-Test	Significance?
Naspers	Abril	8-May-06	-1.85949175	-186%	-114.2233492	yes
Naspers	Markafoni	7-Jul-11	-0.638989736	-64%	-41.24934076	yes
Naspers	Gadu Gadu	4-Oct-07	1.237832664	124%	71.72617415	yes
Naspers	Polish Financial Portal	9-Jun-09	-0.243974033	-24%	-9.195541069	yes
Naspers	BuscaPe	29-Sep-09	0.256581785	26%	10.67707785	yes
Naspers	Digital Sky Technology	14-Jul-10	1.531611473	153%	94.89544325	yes
Naspers	Mcgregor BFA acquir	18-Nov-13	-3.287442467	-329%	-177.4781381	yes

Table 1-29: Naspers Event Study Results

Naspers has been growing through M&A and some of them have been done through its subsidiaries. Out of seven evaluated acquisitions, Naspers shareholders earned abnormal returns on three acquisitions that generated positive statistically significant Cumulative Abnormal Returns of 1.23, 0.25 and 1.53. However, four acquisitions generated negative statistically significant Cumulative Abnormal Returns of -1.85, -0.63, -0.23 and -3.28.

Long-Term Performance

Company	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt / Equity	0.84	0.62	0.63	0.61	0.53	0.65	0.49	1.31	1.22	2.96	2.32
Dividend / Share (c)	327.25	284.8	270	235	207	180	156	144	84	45	66
Earnings/ Share (C)	1,722.00	1,297.00	1,125.00	884	827	1,076.00	866	756	781	302	-18
Price / Earnings	34.96	32.36	33.85	35.17	18.62	12.88	20.08	16.25	9.76	14.39	-117.21
Price / Share (C)	60,196.00	41,975.00	38,085.00	31,092.00	15,399.00	13,857.00	17,391.00	12,286.00	7,625.00	4,347.00	2,227.00
ReturnOn Assets%	1.61	3.75	10.86	11.06	18.53	11.34	9.99	19.12	23.62	9.54	3.07
ReturnOn Equity %	11.25	6.09	12.94	9.68	17.15	10.71	9.45	44.82	39.22	11.67	9.28
ReturnOnCapital Employed	7.11	4.29	-7.94	-7.22	13.03	7.14	8.11	29.92	26.51	5.9	4.71
EVA	2483080.6	-3016395.9	-1578393	-1083107.2	-1437877.2	-1095314.5	-507352.3	1162840	1144681.7	542396	N/A
MVA	3.18	2.92	2.82	2.96	1.68	1.5	2.68	4.01	2.58	2.46	1.27

Table 1-30: Naspers Key Financial Indicators, Source: McGregor BFA

Despite its negative EVA and low return on equity from 2007 until 2012 due to high number of acquisitions; this was compensated by a constantly increasing share price which is also confirmed by the MVA value for the same period, grew from 1.5 in 2008 to 3.18 in 2013.

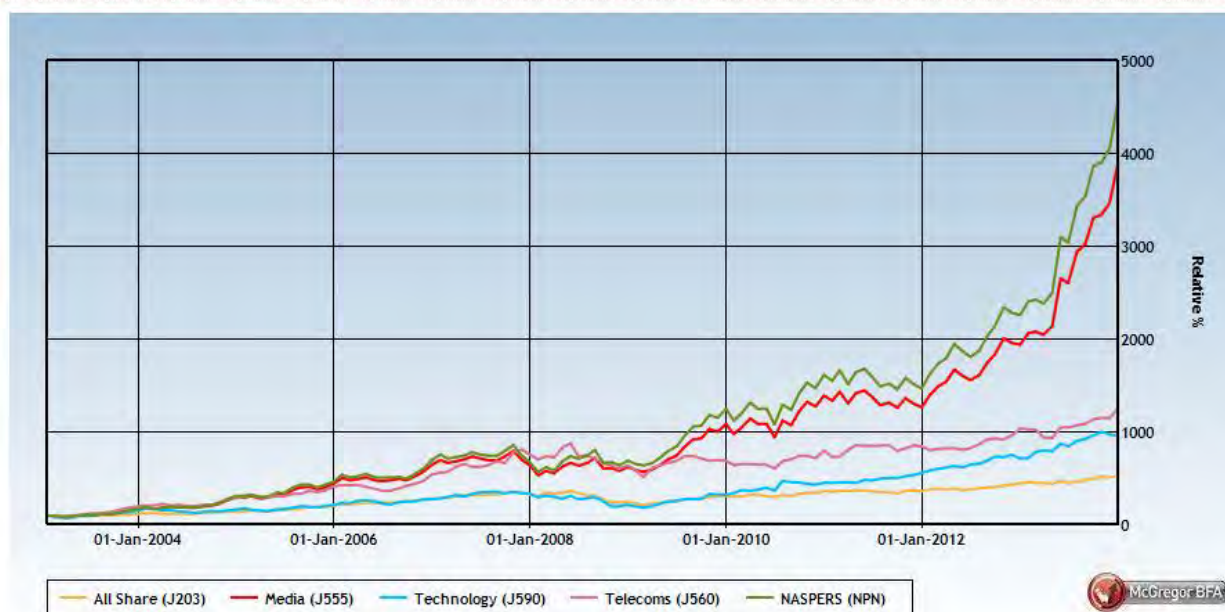


Figure 1-15: Naspers Share Price and Key TMT Indexes Performance, Source: McGregor BFA

From 2009, Naspers share price outperformed the JSE Index and all TMT sector indexes and this serves as evidence that Naspers acquisitions in the emerging markets are paying off and have created value for shareholders both short-term and long-term.

Case Study 5: Pinnacle Holdings

Short-Term Performance

Acquiring Company	Target Company	Announcem	CAR	CAR in Per	CAR T-Test	Significance?
Pinnacle Holdings	RentNet Rentals (Pty)	3-May-06	-1.620941605	-162%	-54.77159495	yes
Pinnacle Holdings	Datanet Infrastructure	30-Oct-06	-0.333001382	-33%	-13.78675017	yes
Pinnacle Holdings	Axiz Technology Hold	20-Jul-10	-0.312912724	-31%	-15.34971206	yes
Pinnacle Holdings	Tri Continental Distrib	3-Apr-08	-0.040607018	-4%	-1.55461635	no
Pinnacle Holdings	Expplx Business Soluti	14-Jun-06	-1.428965573	-143%	-45.84305988	yes
Pinnacle Holdings	PrecisionICT (Pty) Lt	20-May-13	0.243834331	24%	19.81095189	yes

Table 1-31: Pinnacle Holdings Event Study Results

Only one acquisition (Precision ICT) announced on the 20th of May 2013 generated positive statistically significant Cumulative Abnormal Returns of 0.24. Other five acquisitions generated negative Cumulative Abnormal Returns indicating that overall Pinnacle Holdings acquisitions did not create shareholders value within short-term.

Long-Term Performance

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt / Equity	1.83	1.73	1.73	1.31	1.37	2.2	2.07	2.86	1.55	1.1	1.02
Dividend / Share (c)	34.8	29.8	23	16	12	12	10	7	#N/A	#N/A	#N/A
Earnings/ Share (C)	205.6	175.1	117.7	81.3	72.5	70	51.6	30.8	15.1	8.9	4.8
Price / Earnings	11.47	8.56	7.02	5.2	3.06	5.26	8.35	7.4	5.7	2.47	2.92
Price / Share (C)	2,358.00	1,499.00	826	423	222	368	431	228	86	22	14
ReturnOn Assets%	15.92	18.67	18.84	15.61	16.5	17.69	17.47	11.33	14.18	10.53	7.84
ReturnOn Equity %	30	34.75	35.01	25.97	24.87	36.11	34.42	28.88	20.92	13.8	3.03
ReturnonCapital Employed	20.42	32.13	31.63	24.92	23.44	31.15	28.38	21.97	19.04	12.37	2.55
EVA	170916.64	153588.05	118227.26	61308.68	71172.576	54757.284	22920.396	8927.9984	13937.036	-5980.8278	N/A
MVA	2.52	2.62	2.2	1.49	1	2.12	3.42	2.3	1.3	0.45	0.39

Table 1-32: Pinnacle Holdings Key Financial Indicators, Source: McGregor BFA

In 2006, Pinnacle Holdings acquired three companies which increased its Debt/Equity ratio from 1.55 in 2005 to 2.86(almost double) indicating the possibility of debt funding for their acquisitions. However, its P/E ratio have grown from 7.4 in 2006 to 11.47 in 2013 and D/E ratio was down to 1.83 which is a clear indication that Pinnacle Holdings management team were able to successfully integrate acquired companies, extract value and increase shareholders value in the long-term.



Figure 1-16: Pinnacle Holdings Share Price and Key TMT Index Performance, Source: McGregor BFA

Nonetheless, Pinnacle Holdings acquisitions have been successful and the company share price performance was phenomenal and was above the JSE All share index and TMT sector indexes from way back starting from 2004 and remained consistent until 2013. Pinnacle Holdings might have failed to create value for shareholders through its acquisitions within short-term but its share price performance, MVA and EVA values which were constantly on the rise from 2010 proves that Pinnacle Holdings created value for its shareholders in long-term.

Case Study 6: EOH

Short-Term Performance

Acquiring Company	Target Company	Announcement Date	CAR	CAR in Percentages	CAR T-Test	Significance?
EOH	TSS Managed Services	5-Jul-11	0.771427359	77%	72.86153622	yes
EOH	Highveld PFS	19-Dec-08	1.740814212	174%	164.6608169	yes
EOH	Bromide Technologies	19-Sep-06	8.637523078	864%	595.8191245	yes

Table 1-33: EOH Event Study Results

All EOH acquisitions generated positive statistically significant Cumulative Abnormal Returns of 0.77 and 1.74. This is an indication that investors have confidence in EOH management team to execute M&A strategy successfully and it is without a doubt that EOH created value for its shareholders within short-term.

Long-Term Performance

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt / Equity	1.1	1.18	1.3	1.53	1.73	1.09	1.09	1.06	1.78	1.49	0.91
Dividend / Share (c)	80.75	59.5	48	36	30	25	20	14	11.5	10	6
Earnings/ Share (C)	339.1	253.1	196.1	156.4	121.9	96.8	78.8	63.4	54	42.8	31.5
Price / Earnings	16.29	13.86	11.01	7.1	5.1	7.06	11	9.48	7.7	6.8	4.92
Price / Share (C)	5,523.00	3,507.00	2,160.00	1,110.00	622	683	867	601	416	291	155
ReturnOn Assets%	20.44	20.75	21.41	19.64	17.25	21.89	22.05	23.87	20.76	14.82	20.75
ReturnOn Equity %	20.46	19.72	20.74	23.38	25.24	25.2	24.66	24.89	26.73	28.33	27.41
ReturnonCapital Employed	16.35	15.3	17.1	21.54	22.52	24.28	23.49	24.58	25.68	20.63	24.13
EVA	154309.22	112232.39	55889.726	28779.539	36984.86	27812.093	20998.597	17837.135	N/A	N/A	
MVA	3.22	2.54	2.64	1.98	1.57	2.27	3.25	2.6	2.43	2.16	1.56

Table 1-34: EOH Key Financial Indicators, Source: McGregor BFA

For EOH, the numbers speak for themselves, all key financial indicators from Dividends per Share, PE ratio, EVA and MVA were positive post acquisition periods from 2006.

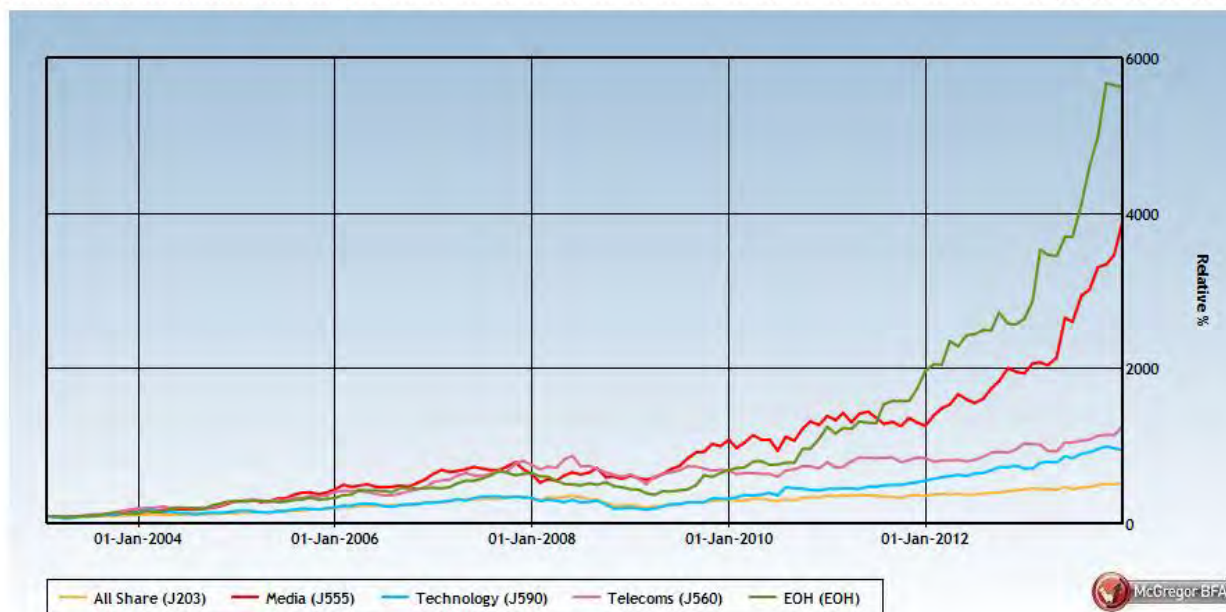


Figure 1-17: EOH Share Price and Key TMT Index Performance, Source: McGregor BFA

EOH acquisitions have created value for shareholders both in the short-term and long-term and its share price outperformed all the companies shares selected for this study as well as the JSE All share index and TMT sector indexes which serves as evidence that EOH management team successfully executed their M&A strategy.

Case Study 7: Convergenet Holdings

Short-Term Performance

Acquiring Company	Target Company	Announcement Date	CAR	CAR in Per	CAR T-Test	Significance?
Convergenet Holdings	Chrystalpine	15-Dec-08	0.309590007	31%	19.88056279	yes
Convergenet Holdings	SIZWE AFRICA IT GROUP	28-May-07	-4.591076025	-459%	-36.95837128	yes
Convergenet Holdings	Telesto	1-Apr-09	-1.024287887	-102%	-31.51225911	yes

Table 1-35: Convergenet Holdings Event Study Results

Two Convergenet Holdings acquisitions generated statistically significant negative Cumulative Abnormal Returns of -4.59 and -1.02. Only one acquisition generated statistically significant positive Cumulative Abnormal Returns of 0.31.

Long-Term Performance

Company	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Dividend / Share (c)	#N/A	#N/A	1.5	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Earnings/ Share (C)	-89.5	-5	2.7	2	4.9	6.2	2.5	#N/A	0.7	0.6	2.1
Price / Earnings	-0.08	-6.4	8.52	14	10	18.55	22.8	#N/A	8.57	20	0.95
Price / Share (C)	7	32	23	28	49	115	57	10	6	12	2
Return On Assets %	-19.58	-7.09	4.91	5.25	15.58	30.08	10.99	-267.59	24.22	12.09	19.19
Return On Equity %	-95.48	-10.25	4.88	5.61	9.76	17.15	5.26	-570.26	28.38	-2.7	88.64
Return on Capital Employed	-59.58	-8.28	4.09	4.72	7.81	12.91	3.73	-570.26	28.38	-2.7	87.77
EVA	-129723.02	-65451.727	-33027.437	-75941.163	-30761.46	34903.462	-3303.12	-4506.3974	557.505	1120.0051	1146.3072
MVA	0.52	0.72	0.56	0.62	1.05	2.89	2.97	7.43	2.27	7.52	2.76

Table 1-36: Convergenet Holdings Key Financial Indicators, Source: McGregor BFA

Post 2008, Convergenet Holdings produced negative EVA and its MVA decreased from 2.89 in 2008 to 0.52 by 2013.

Price history - J203 (01 Jan 2003 - 31 Dec 2013)

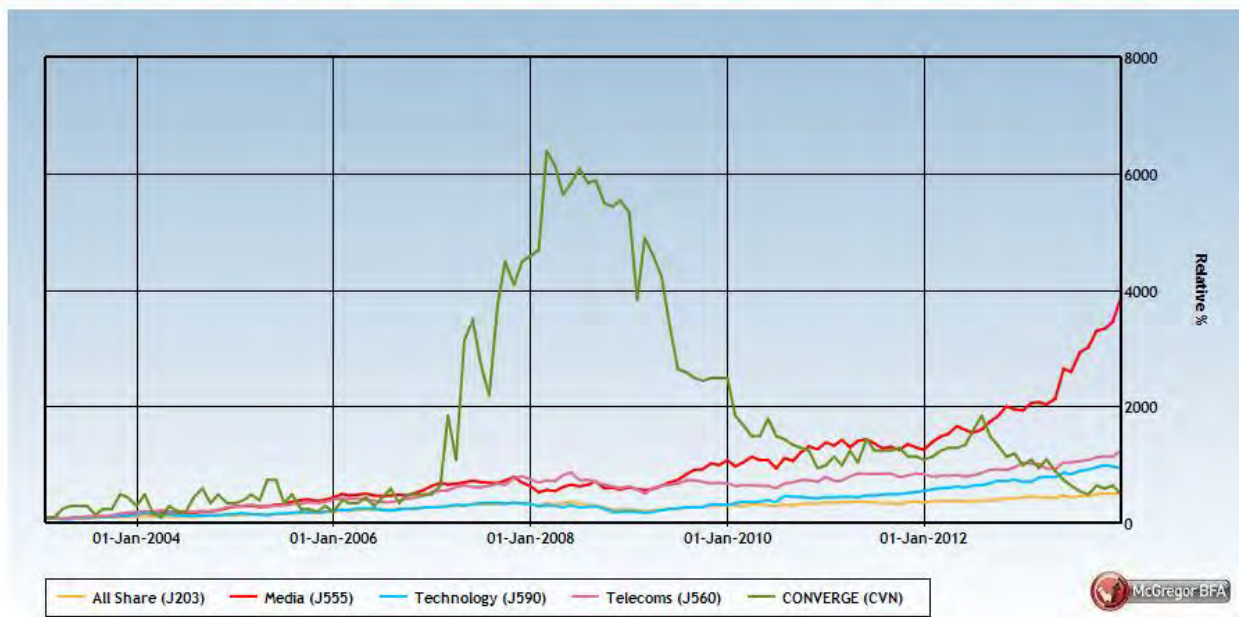


Figure 1-18: Convergenet Holdings Share Price and Key TMT Index performance, Source: McGregor BFA

The high price jump of Convergenet Holdings is an indication that investors were upbeat and positive about Convergenet Holdings acquisitions between 2007 and 2010. Post 2010, investors expectations were not met resulting in share price declining. Convergenet Holdings high share price in 2008 which was followed by an immediate share price decline in just 2 years; key financial indicators such as MVA, EVA, PE, ROE and ROA ratios also declined dramatically and became worse in 2012 and 2013; this is a clear indication acquisitions long term performance was very poor and destroyed shareholders value. Overall, Convergenet Holdings M&A strategy did not create value for shareholders both short-term and long-term.

Case Study 8: Datatec

Short-Term Performance

Acquiring Company	Target Company	Announcement Date	CAR	CAR in Per	CAR T-Test	Significance?
Datatec	Comstek Holdings (Pty) Ltd	29-Nov-12	-1.017630106	-102%	-110.9664223	yes
Datatec	European subsidiaries of 2e2	4-Mar-13	1.003460325	100%	96.36824452	yes
Datatec	Cibercall	9-Nov-12	-0.049570489	-5%	-5.405092584	yes
Datatec	Tripple Access IT	17-Jul-12	-0.132669957	-13%	-12.22131275	yes
Datatec	AFINA GROUP	2-Jul-12	13.45255528	1345%	1323.956858	yes
Datatec	INCA SOFTWARE	17-Mar-11	2.679072585	268%	179.5293819	yes
Datatec	Direct Visual Limited	24-Jan-11	0.750774138	75%	54.45811656	yes
Datatec	Biodata IT SA (Pty) Ltd	17-Sep-10	-0.373716642	-37%	-35.2976444	yes
Datatec	CSF SOLUTIONS	5-Dec-06	9.779674945	978%	524.2864278	yes

Table 1-37: Datatec Event Study Results

Datatec is one of the few most M&A driven listed JSE companies within the TMT sector and has conducted several M&A transactions directly and through its subsidiaries. Majority of its acquisitions generated negative statistically significant Cumulative Abnormal Returns within short-term.

Long-Term Performance

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt / Equity	1.95	1.77	1.56	1.67	1.66	1.7	1.45	1.42	1.31	1.84	1.56
Dividend / Share (c)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Earnings / Share (C)	341.6	322.21	172.92	136.54	313.93	321.89	282.61	163.16	4	-6.6	-74.18
Price / Earnings	13.92	13.48	20.56	22.35	4.54	8.56	11.9	13.64	234.5	-233.79	-6.65
ReturnOn Assets%	6.35	7.8	5.74	4.41	6.66	7.3	7.86	6.75	6.45	-3.42	-3.05
ReturnOn Equity %	8.36	9.81	5.99	3.93	8.77	10.45	10.7	8.3	12.68	-12.33	-9.89
ReturnOnCapital Employed	65.28	63.92	34.93	25.3	70.02	68.68	67.29	44.73	11.87	-11.43	-8.79
EVA	-615435.53	-372498.63	-378374.45	-462509.59	-582850.21	-563894.69	-354395.43	-406513.85	-67630.382	-97892.363	N/A
MVA	1.15	1.26	1.24	1.08	0.55	1.04	1.27	1.13	2.77	4.78	0.47

Table 1-38: Datatec M&A Key Financial Indicators, Source: McGregor BFA

Datatec from 2010 until 2013 have acquired several companies mainly through its subsidiaries positioning itself to be a global technology distributor. However, the key financial indicators show poor performance post the acquisitions with a constant negative EVA since 2004. Moreover, it is worth noting that Datatec Debt/Equity ratio went up to 1.95 in 2013 from 1.67 in 2010 suggesting that debt was also used to fund acquisitions. Other indicators such as PE, ROA, ROE and MVA performed reasonably well from 2005 until 2013.



Figure 1-19: Datatec Share Price and Key TMT Index Performance, Source: McGregor BFA

Due to the fact that Datatec have made lots of acquisitions through its subsidiaries in Europe mainly in the UK; and the fact that it is also listed on the London Stock Exchange, the company only created value for shareholders through share price increase and there was a correlation between its share price performance and key TMT sector indexes except for the media sector index from 2010. Overall, Datatec acquisitions failed to create value for shareholders both short-term and long-term.

Case Study 9: Mustek

Short-Term Performance

Acquiring Company	Target Company	Announcemr	CAR	CAR in Per	CAR T-Test	Significance?
Mustek	Rectron Group	22-Mar-07	6895193.936	689519394%	493710236.6	yes
Mustek	Sizwe Africa IT	12-Dec-13	-0.22787575	-23%	-12.87763129	yes

Table 1-39: Mustek Event Study Results

Mustek acquisition of Sizwe IT Africa on the 12th December 2013 generated negative statistically significant Cumulative Abnormal Returns of -0.22.

Long-Term Performance

Company	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt / Equity	1.65	1.52	1.37	1.66	2.1	2.67	2.53	2.62	2.26	1.9	1.92
Dividend / Share (c)	17	14.4	17	12	10	20	55	65	55	50	25
Earnings / Share (C)	72.8	70.15	89.4	57.8	48.7	73.7	55.5	44.2	90.4	72.5	118.7
Price / Earnings	7.94	8.6	5.21	6.76	3.02	4.46	17.35	24.05	11.22	10.28	4.37
Price / Share (C)	578	603	466	391	147	329	963	1,063.00	1,014.00	745	519
Return On Assets %	6.86	6.38	9.6	7.43	6.7	8.14	7.69	5.73	9.18	6.17	13.83
Return On Equity %	10.29	10.61	13.64	9.43	9.4	14.81	11.45	12.33	16.88	10.86	20.07
Return on Capital Employed	9.72	8.22	11.76	7.52	6.02	9.16	7.11	8.93	10.11	6.86	12.56
EVA	29396.78	96765.773	17177.42	-9167.3148	38331.176	24211.806	46420.858	75926.874	60589.485	126045.79	N/A
MVA	0.79	0.88	0.84	0.79	0.65	0.79	1.54	1.51	1.62	1.38	1.12

Table 1-40: Mustek M&A Key Financial Indicators, Source: McGregor BFA

Due to data constraints and the fact that the study only evaluates M&A transactions from 2005 until 2013, the study could not conclude on exactly what happened to Mustek acquisition of Sizwe IT Africa on the 12th December 2013 long term performance since acquisition was only done in December 2013.

Price history - J203 (01 Jan 2003 - 31 Dec 2013)

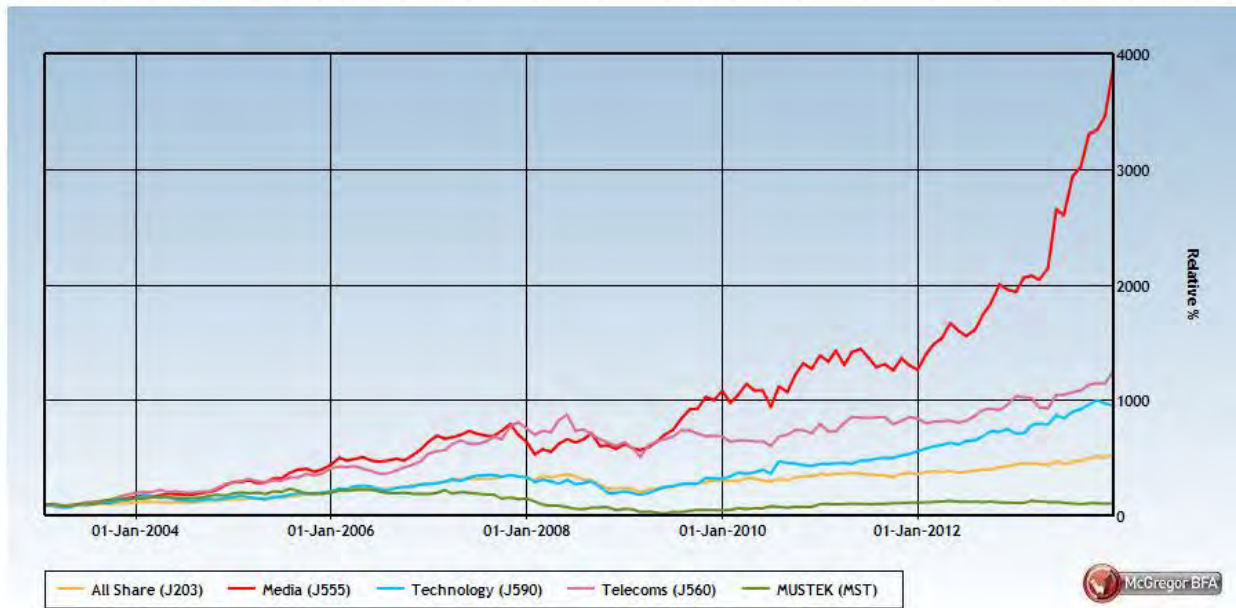


Figure 1-20: Mustek Share Price and Key TMT Index performance, Source: McGregor BFA

Mustek acquisition of Sizwe IT Africa created value for shareholders in the short-term and it remains to be seen if the company will grow organically or through acquisitions in the near future because its share price performance remained flat from 2010 until 2013.

Case Study 10: Business Connexion

Short-Term Performance

Acquiring Company	Target Company	Announcemert	CAR	CAR in Per	CAR T-Test	Significance?
Business Connexion	UCS	15-Dec-10	2.328382121	233%	109.9216135	yes
Business Connexion	Integr8 IT	5-Nov-12	-0.656809384	-66%	-40.87800873	yes

Table 1-41: Business Connexion Event Study Results

Business Connexion acquisition of Integra IT generated negative statistically significant Cumulative Abnormal Returns of -0.66. However, Business Connexion acquisition of UCS generated positive statistically significant Cumulative Abnormal Returns of 2.33.

Long-Term Performance

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Dividend / Share (c)	17	17	54	#N/A	14.4	78	15	37	#N/A	#N/A	#N/A
Earnings / Share (C)	34.2	39	17.3	47.6	30	45.1	39.8	45.6	74.9	34.2	#N/A
Price / Earnings	15.29	12.21	26.82	11.6	13.77	11.75	18.54	18.55	6.28	10.64	#N/A
Price / Share (C)	523	476	464	552	413	530	738	846	470	364	#N/A
Return On Assets %	11.14	10.24	5.74	8.95	5.05	7.07	8.01	7.42	14.99	-4.51	#N/A
Return On Equity %	8.03	7.09	4.32	7.98	6.5	8.07	10.19	9.45	25.71	-14.32	#N/A
Economic Value Add (EVA)	39594.2021	29578.3774	-108432.61	21249.388	-111618.26	-44075.755	-106699.21	-24380.385	55870.85	26756.012	N/A
Market Value Add (MVA)	0.95	0.94	0.98	0.94	0.91	0.99	1.43	1.7	1.09	1.02	1.02

Table 1-42: Business Connexion Key Financial Indicators, Source: McGregor BFA

Looking at the key financial indicators, post Integr8IT acquisition on the 05th November 2012 all key value based performance indicators went up in 2013 indicating that indeed the acquisition created value for shareholders.



Figure 1-21: Business Connexion Share Price and Key TMT Index Performance, Source: *McGregor BFA*

Business Connexion poor performance was evident against the JSE All Share Index and TMT sector indexes from 2007 and remained flat until 2013. However, its 2012 acquisition of Integr8 created value for shareholders in the short term and remain to be seen if it will continue to create value in the long-term which is beyond 2013 and hence not covered by this study.

Companies Share Prices Performance, JSE index, TMT sector indexes Comparison Analysis or Benchmarking



Figure 1-22: JSE All Share Index and TMT sector Indexes Performance, Source: McGregor BFA

Most companies selected as case studies for this research started engaging more on M&A activity from 2008 and judging by the performance of the media index, technology index and telecommunications index compared to the overall JSE listed shares performance represented by the JSE All Share index; the three TMT sector indexes outperformed the JSE All Share Index from 2005 until 2013. Media index was leading the group, followed by the telecommunications index and the technology index with its performance close to the JSE All Share index. This is an indication that TMT sector companies are performing well or above average; meaning that in general M&A transactions within the TMT sector are contributing positively in increasing shareholders value.

Due to the fact that McGregor BFA Expert Comparison Analysis tool allows for shares prices performance comparison of maximum 5 companies to be compared against each other; a sample of 10 selected companies was divided into two groups for comparison analysis with one group (Group A) comparing AdaptIT, Datatec, EOH, Naspers and MTN Group share

prices together and the second group (Group B) comparing Business Connexion, Convergenet, Mustek, Pinnacle and Telkom Group share prices.

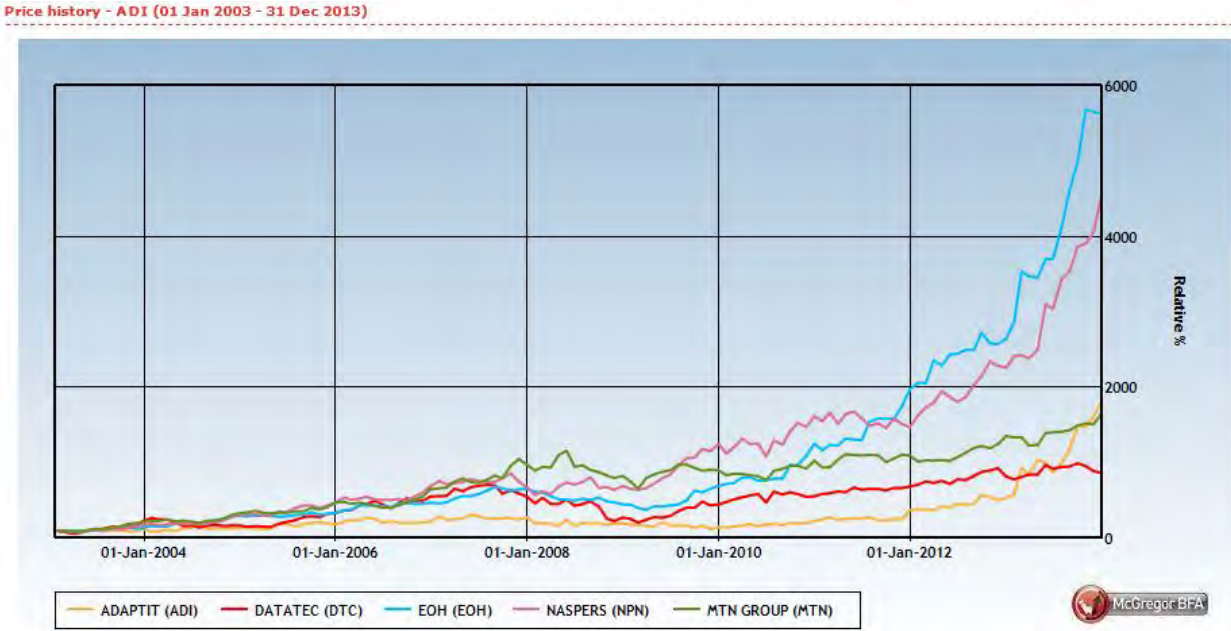


Figure 1-23: Adapt IT, Datatec, EOH, Naspers and MTN Group Share Price Performance Comparison, Source: McGregor BFA

There was a correlation among Group A share prices performance from 2005 until 2008 except for Adapt IT. From 2010 Naspers, EOH and MTN showed strong performance and towards the end of 2013 EOH led the Group, followed by Naspers and Adapt IT, and these three companies experienced steady growth. Datatec was the least performing share in the group and have experienced a sharp decline between 2005 and 2008, 2008 and 2010 and finished on the low or decline in 2013. These validates and strengthen the study findings that Datatec M&A failed to create shareholders value both short-term and long-term and the fact that EOH, Naspers and MTN Group have successfully executed their M&A strategies resulting in shareholders value creation both short-term and long-term.



Figure 1-24: Business Connexion, Convergenet, Mustek, Pinnacle Holdings and Telkom Group Share Price Performance Comparison, Source: McGregor BFA

In Group B, Business Connexion, Telkom and Mustek remained flat from 2005 until 2013, Convergenet performed well between 2007 and 2009 and started declining from 2010 until 2013. Pinnacle Holdings was the leading stock within the group from 2010 until the end of 2013. This validates and strengthens the study findings on Telkom and Convergenet that failed to create value for shareholders both short-term and long-term through M&A.

5 RESEARCH CONCLUSIONS

Out of 45 M&A transactions conducted by 10 selected JSE listed companies that are analysed using the Event Study Methodology, 25 transactions produced positive Cumulative Abnormal Returns and 20 transactions produced negative Cumulative Abnormal Returns. Only one company (EOH) earned positive Cumulative Abnormal Returns for all of four transactions. Three transactions were statistically significant with one not statistically significant. Majority of the Cumulative Abnormal Returns obtained were statistically significant with only three transactions with Cumulative Abnormal Returns that are not statistically significant. The overall results obtained by this study is in line with most of the results of previous studies, and found that 55% of M&A transactions investigated within the TMT sector in South Africa created value for shareholders within the short-term. Therefore the null Hypothesis derived

for short-term performance for this study as stated above was found to be true for 55% of the transactions investigated. However, 45% of M&A transactions investigated within the TMT sector in South Africa destroyed shareholders value within the short-term; meaning that the alternative Hypothesis derived for short-term performance for this study was found to be true for 45% of the transactions investigated.

With regards to long-term performance, Adapt IT, MTN Group, Naspers, Pinnacle Holdings, EOH created long-term value for shareholders regardless of some of their transactions that did not create value within the short-term. Telkom Group, ConvergeNet and Datatec failed to create shareholders value within the long-term. Given these results, it is fair to conclude that 55% of M&A transactions selected for this study created value for shareholders in both the short-term and long-term. Therefore the null Hypothesis derived for long-term performance for this study as stated above was also found to be true for 55% of the transactions investigated. 45% M&A transactions selected for this study therefore failed to create value for shareholders both short-term and long-term. Therefore, the alternative Hypothesis derived for long-term performance for this study was also found to be true for 45% of the transactions investigated. Nonetheless, 60 % of selected companies share prices performed well compared to the JSE index and overall TMT sector indexes except only for Mustek, Telkom Group, Convergenet and Business Connexion during 2005 and 2013 period.

The study found that 33% of M&A transactions covered by the study were cross-border M&A transactions; which is an indication of South African TMT sector willingness to take risks and expand into global markets. The study also found that most of the transactions conducted through subsidiaries failed to generate positive Cumulative Abnormal Returns and this has been the case with most M&A transactions done by Naspers and Datatec through their subsidiaries. The study also found that having an M&A transaction that created shareholders value within short-term does not mean that the M&A transaction continues to create shareholders value in the long-term. For example, Telkom Group three acquisitions generated positive statistically significant Cumulative Abnormal Returns within the short-term period. However, post acquisitions, Telkom Group EVA, ROA and ROE were on the decline and ended up negative from 2011 to 2013; and it was also reported that the company later disposed off acquired assets after incurring losses. Similarly, an M&A transaction can fail to generate positive Cumulative Abnormal Returns within short-term and create value for shareholders in the long-term. This was the case with Pinnacle Holdings where 90% of its

M&A transactions evaluated for this study failed to create value for shareholders within short-term; but in the long-term Pinnacle Holdings EVA, MVA, ROA and ROE went up post-acquisitions. This suggests that some companies (Pinnacle Holdings in this regard) are not good at convincing the markets that their M&A strategies will create shareholders value; and this gets reflected negatively through their poor share prices performances after the announcement of M&A transactions. However, this also suggest that Pinnacle Holdings management team were able to reverse the negative perception generated by the markets through robust integration strategies and later produced positive results for their shareholders. The study found that large companies have conducted most M&A transactions and are constantly engaging in M&A activity compared to small companies. This was also confirmed by a senior manager for mergers and acquisitions at MTN Group, in a response to the survey saying that MTN engaged in +/- 60 M&A transactions during 2005 and 2013 period compared to only 11 reported by Adapt IT, which is a small company. The M&A executive at Adapt IT responded to the survey and stated that M&A fails when you depart from strategy, conduct poor due diligence, buy under a false deadline (e.g. reporting date) or overpay. In addition the MTN senior manager stated that the success lies in the ability to integrate successfully and cultural fit. Both MTN and Adapt IT M&A executives agreed that M&A does create value for shareholders. Companies with big cash reserves and access to credit to finance or fund M&A within the TMT sector had an advantage to make more acquisitions and therefore Naspers, Telkom Group and MTN Group are few companies with this advantage.

The most prevalent M&A strategies are characterised by the desire to expand into new markets (70% of the transactions covered) and 10% of the deals aimed at dealing with competition by acquiring small players. In a nutshell, we are bound to see more TMT sector companies in South Africa operating in the telecommunications sector wanting to acquire other companies operating in either media or technology sectors or vies-visa in a bid to dominate the TMT sector eco-system.

Recommendations

In a developing country like South Africa which is faced with high levels of unemployment, inequality and poverty; it is highly likely that regulatory bodies such as ICASA and the Competition Commission will continue to evaluate M&A proposals considering government laws and challenges facing the country and M&A executives should take this into account.

Deals that are likely to be approved will have to give authorities assurance that current employment will be preserved and new employment opportunities will be created as a result. Companies must also be willing to reduce cost of information, communication and technology services to benefit consumers in general which can have a negative impact on their revenues. M&A executives must select target companies that will still create shareholders value while considering other factors such as employment creation and low or reduced prices for services and products.

Due to constant changing environment in which TMT sector companies operate, it is more likely that some companies will realise that an acquisition is no longer delivering anticipated value post integration when all of a sudden there is a new competitor or disruptive technology. Companies should consider disposing off or selling assets from that particular acquisition and re-align both their business strategies and M&A strategies in this regard. Deloitte (2014) argued that the technology sector will continue to see an increase in divestitures of underperforming or non-core assets as companies rethink their market position and streamline portfolios to align with evolving strategies and directions. Deloitte (2014) further argued that since the divestiture cycle is relatively new to the technology sector, companies may not be familiar with the process; and to heighten the value of a divestiture, they should use the same rigor to become a prepared seller as they do when they become a prepared buyer. TMT sector strategies and due diligence on a specific acquisition should also evaluate and assess the impact of delays on approvals from the Competition Commission and ICASA which can drag on for years. Approval delays have negative impact on the valuations which could lead to a target company being over-valued or undervalued after months of waiting for approvals. Valuations should be constantly revisited pre and post the deal approval before closing the deal to incorporate new changes within the industry and macroeconomic and microeconomic changes such as currency and tax laws. This will ensure maximum protection and maximisation of shareholders value on proposed M&A transactions.

Currently the global M&A markets are mainly driven by Cloud Computing as reported by Deloitte (2014). The study found that TMT sector M&A in South Africa are currently driven by TMT Convergence. In the next 10 years we will start to see more Cloud Computing acquisitions when most companies can trust and be able to adopt the technology. This is due to the difference between markets readiness for a certain technology in more advanced markets or developed countries such as the USA and other European countries compared to

developing and emerging African markets such as South Africa. M&A executive should assess the market readiness for certain products especially for African markets before making acquisitions hoping that they will be able to introduce new services and products. Without the right fuel for growth, many companies have a fixed life: an organization has to come up with its own products and services or buy them (Deloitte, 2014). TMT sector executives should first look at the company capabilities and conduct cost-benefit analysis to choose either to introduce new products and services through innovation or organic growth versus acquiring a company already providing products and services sought after.

According to Deloitte (2014), M&A can help fuel a technology company's competitive advantage by speeding time to market for new offerings but it is only one part of the equation and generating revenue from those offerings is the other. Moreover, the need to monetize acquisitions, particularly as technology company valuations begin to creep up, this forces companies to be more disciplined early in the M&A cycle to understand, assess, and articulate the Strategies and value drivers behind a potential deal in order to build a strong business case based on a potential acquisition's strategic fit; and determine how and when to unlock value after the deal to ensure shareholders value creation. To insure M&A success within the TMT sector, during due diligence, sufficient time must be spent on valuations in order to arrive at the right price for the target company since an acquisition can fail to recover all the costs if overpaid. Furthermore, Deloitte (2014) reported that the technology sector is seeing a more specialized and complex series of integration strategies emerge were not all the capabilities of a target company are assimilated into the buying company. Deloitte (2014) recommended that in such a case acquired company must operate as a separate business unit with autonomy and flexibility in product engineering, and how products are sold, serviced, and supported in the marketplace, but retaining the typical integration in back-office functions. Were possible for the purpose of efficiency, some target companies should be left operating on their own if the integration strategy will erode shareholders value by adding more complexity and introducing new operating costs on the acquiring firm. BloombergBusiness (2007) argued that companies with solid track records in M&A, such as internet equipment maker Cisco Systems, tend to buy on a regular basis; and they have methodical processes for selecting targets and integrating businesses post transactions; and they don't buy companies to prop up earnings or to enter dramatically new lines of business. TMT sector companies should perform risk assessment during due diligence and develop internal methodologies to execute an M&A strategy and frameworks to assess M&A performance both short-term and long-term.

Methodologies and performance assessment frameworks should be updated each time there is a new learning M&A experience which requires a mind shift to ensure success and shareholders value creation.

Companies should employ M&A executives or managers who are visionary, alert, adaptable, flexible, creative and assertive to drive complex TMT sector M&A strategies whilst addressing challenges posed by the sector such as disruptive innovations and other M&A issues and challenges in order to create value for shareholders.

TMT sector companies seeking growth using M&A must have patients and a long-term view, conduct rigorous due diligence prior the transaction, constantly monitor and measure anticipated M&A key performance indicators during and post integration process until shareholders value creation objectives are realised or maximized.

6 RECOMMENDATIONS FOR FUTURE RESEARCH

This study can be expanded by using non-financial measures and other evaluation methods to assess the impact of mergers and acquisition on shareholders value. The study can also be adopted to study the impact of M&A on shareholders value in other sectors in South Africa such as the financial sector, mining sector, energy sector and other sectors. This study can also be replicated to study the impact of mergers and acquisition on shareholders value from target companies' perspective instead of acquiring companies' perspective. The study can also be extended and use the other JSE market index such as the Telecommunications Index for Telecommunications companies, Technology Index and the Media index using the Event Study methodology instead of using the JSE All share index.

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- www.telkom.co.za
- www.pinnacleholdings.com
- www.mustek.co.za

APPENDICES

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Result 81 - 92 of 92(92 total records)

#	Type	Description	Date	
81	SENS	NASPERS - THE INTRODUCTION OF BEE SHAREHOLDERS IN RELATION TO MEDIA24	27 Sep 2006	<input type="checkbox"/>
82	SENS	NASPERS LIMITED - ANNOUNCEMENT	26 Sep 2006	<input type="checkbox"/>
83	News Brief	NASPERS TO BOOST FOREIGN INTERNET BUSINESS - THABISO MOCHIKO	30 Jun 2006	<input type="checkbox"/>
84	News Brief	NASPERS CONSIDERS MORE OPPORTUNITIES IN BRAZIL - REUTERS	09 May 2006	<input type="checkbox"/>
85	SENS	NASPERS LIMITED - NASPERS ACQUIRES EQUITY STAKE IN ABRIL	08 May 2006	<input type="checkbox"/>
86	News Brief	NASPERS TO LOOSEN THE PURSE STRINGS AND INCREASE DIVIDEND -BY REBECCA HARRISON	20 Jan 2005	<input type="checkbox"/>
87	News Brief	NASPERS UNIT ACQUISITION	17 Dec 2004	<input type="checkbox"/>
88	News Brief	MEDIA GROUPS SCOTCH TAKEOVER RUMOURS -BY BELINDA ANDERSON	07 Oct 2004	<input type="checkbox"/>
89	News Brief	NASPERS LTD -N-	14 Jun 2004	<input type="checkbox"/>
90	News Brief	NASPERS LTD -N-	15 Mar 2004	<input type="checkbox"/>
91	News Brief	NASPERS LTD -N-	11 Mar 2004	<input type="checkbox"/>
92	SENS	NASPERS / MNET / SUPERSPORT - SALIENT DATES ANNOUNCEMENT REGARDING THE PROPOSED	12 Feb 2004	<input type="checkbox"/>

1 2 3 4 5
Result 81 - 92 of 92 (92 total records)

Figure I-25: JSE SENS Example, Source: McGregor BFA

Date	Share Price	Daily Return	Market Index	Market Return	Expected Return	Abnorm Return	Cumulative Abnormal Returns(CAR)	Abnormal Return T-Test	Significance?	CAR 10 Days after Event
17-Jan-12	89	-0.021978022	33424.73	-0.00374	-0.00257	-0.0194	-0.007343539	-0.55808915	no	-0.007343539
16-Jan-12	89	0	33205.01	-0.00657	-0.0043	0.004302	-0.015102869	0.123728134	no	-0.015102869
13-Jan-12	83	-0.06741573	32927.36	-0.00836	-0.00539	-0.06202	-0.057721879	-1.78381893	no	-0.057721879
12-Jan-12	83	0	33008.52	0.002465	0.001206	-0.00121	-0.063230091	-0.03468895	no	-0.063230091
11-Jan-12	81	-0.024096386	32827.05	-0.0055	-0.00365	-0.02045	-0.021656147	-0.58814541	no	-0.021656147
10-Jan-12	84	0.037037037	33020.16	0.005883	0.003289	0.03748	0.013297985	0.970597652	no	0.013297985
9-Jan-12	84	0	32774.83	-0.00743	-0.00482	0.004824	0.038571796	0.13873359	no	0.038571796
6-Jan-12	84	0	32749.57	-0.00077	-0.00077	0.000766	0.005589475	0.022020641	no	0.005589475
5-Jan-12	88	0.047619048	32599.06	-0.0046	-0.0031	0.050716	0.051481466	1.458594847	no	0.051481466
4-Jan-12	95	0.079545455	32899.68	0.009222	0.005324	0.074221	0.124937285	2.134622134	yes	0.124937285
3-Jan-12	95	0	32768.35	-0.00399	-0.00273	0.002729	0.076950173	0.07847759	no	0.068823482
30-Dec-11	99	0.042105263	31985.67	-0.02389	-0.01485	0.056957	0.059686159	1.638106214	no	
29-Dec-11	99	0	31995.87	0.000319	-0.0001	0.000102	0.057059101	0.002922978	no	
28-Dec-11	100	0.01010101	32092.87	0.003032	0.001552	0.008549	0.008651063	0.24588302	no	
23-Dec-11	80	-0.2	32127.25	0.001071	0.000357	-0.20036	-0.191807451	-5.76229706	yes	
22-Dec-11	78	-0.025	31904.14	-0.00694	-0.00453	-0.02047	-0.220828721	-0.58877351	no	
21-Dec-11	67	-0.141025641	31646.77	-0.00807	-0.00521	-0.13581	-0.1562853	-3.90601759	yes	
20-Dec-11	68	0.014925373	31783.9	0.004333	0.002345	0.012581	-0.123232834	0.361820905	no	
19-Dec-11	68	0	31721.37	-0.00197	-0.00149	0.001495	0.014075549	0.042994209	no	
15-Dec-11	68	0	32006.7	0.008995	0.005186	-0.00519	-0.003690798	-0.14914218	no	
14-Dec-11	68	0	31727.03	-0.00874	-0.00562	0.005621	0.00043531	0.161661776	no	

Figure 1-26: Event Study of EOH BI Planning Services [Event Date: 03 January 2012]

Top ten				
Share	Number of funds at 30 June 2013	Number of funds at 30 Sept 2013	Change	Position at June 2013
Sasol	281	268	-13	1 st
Anglo American	257	248	-11	2 nd
MTN Group	254	241	-13	3 rd
BHP Billiton	254	234	-20	4 th
British American Tobacco	232	230	-2	5 th
Naspers	219	210	-9	6 th
SABMiller	214	204	-10	7 th
Richemont	214	201	-13	8 th
Old Mutual	209	198	-11	10 th
FirstRand	203	192	-11	11 th

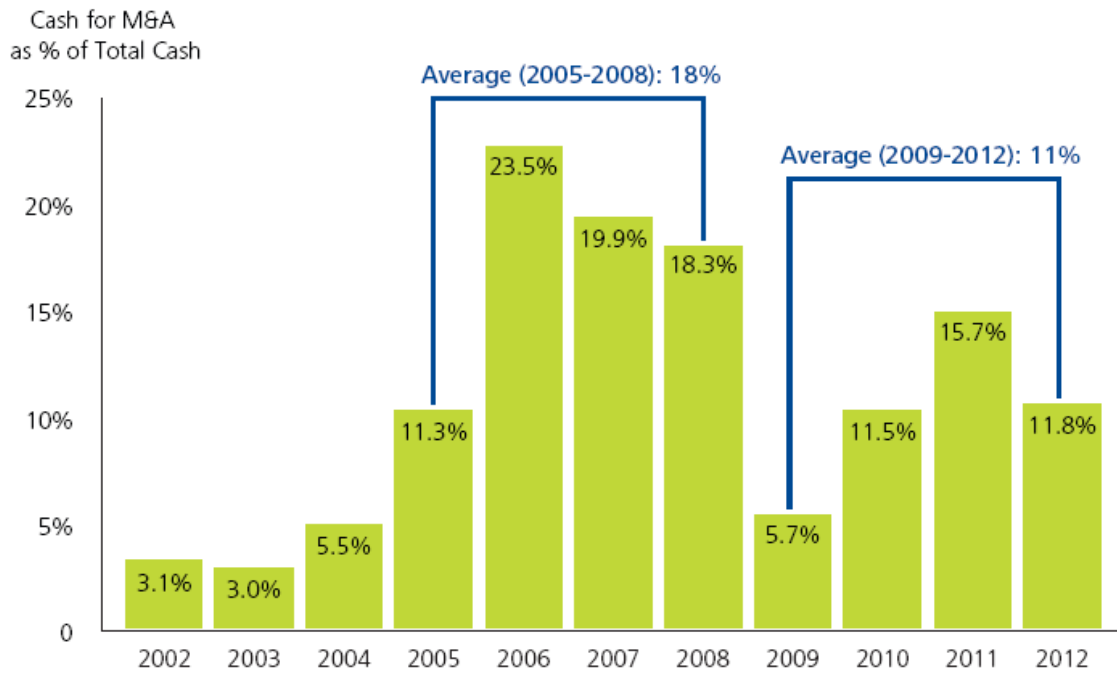
Source: ProfileData

Figure 1-27: Naspers and MTN Group in the Top 10 Most Subscribed Stocks by Fund Managers, Source: Profile Data (2013)

Rank	Sector	Company	JSE Code	Market Capital (Millions)
1	Industrials	BHP Billiton plc	BIL	1,603,719.00
2	Tobacco	British American Tobacco plc	BTI	843,513.69
3	Drinks	SABMiller plc	SAB	593,203.06
4	Industrials	Anglo American plc	AGL	376,115.97
5	Luxury Goods	Compagnie Fin Richemont	CFR	344,520.00
6	Telecommunications	MTN Group Ltd	MTN	309,135.44
7	Energy and Chemicals	Sasol Limited	SOL	239,122.38
8	Media	Naspers Ltd	NPN	233,742.84
9	Industrials	Kumba Iron Ore Ltd	KIO	179,708.72
10	Banking	Standard Bank Group Ltd	SBK	173,189.33

Figure 1-28: Top 10 Largest JSE Listed Companies by Market Capitalisation, Source: Bloomberg (2012)

**Figure 5: Cash used for M&A as percentage of total cash
Technology sector, 2002-2012**



Source: Deloitte Analysis; Underlying data sourced from Capital IQ
[Note: % Cash used in M&A = Cash used for M&A as % of Total Cash plus Short-term investments]

Figure 1-29: M&A Cash Investments as % of Total Cash, Source: Deloitte (2012)

Procedure for calculating Abnormal Returns (AR) and Cumulative Abnormal Returns (CAR)

1. Obtain share price data for the event period.
2. Calculate Daily Returns $(D3-D2)/D2$.
3. Calculate Market Return using JSE All-Share Index $((K18-K17)/K17)$.
4. Run OLS regression using the company stock/share returns and the returns of the market index (JSE All Share Index).

1	SUMMARY OUTPUT								
2									
3	Regression Statistics								
4	Multiple R	0.077274088							
5	R Square	0.005971285							
6	Adjusted R Square	-0.002045076							
7	Standard Error	0.01058758							
8	Observations	126							
9									
10	ANOVA								
11		<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
12	Regression	1	8.34995E-05	8.34995E-05	0.744887226	0.389766038			
13	Residual	124	0.01390001	0.000112097					
14	Total	125	0.01398351						
15									
16		<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
17	Intercept	0.001050438	0.000944636	1.112002174	0.268288511	-0.000819262	0.00292	-0.000819262	0.002920137
18	X Variable 1	0.047478933	0.055011778	0.863068495	0.389766038	-0.061404785	0.156363	-0.061404785	0.156362651
19									

Figure 1-30: OLS Regression for EOH 126 Observations for 05 July 2011 Event Date

Intercept represent the Alpha value and **X Variable1** represents the Beta value

5. Calculate the Expected Returns using Beta and Alpha obtained from the OLS Regression multiply by the Market Return (

=OLS_Regression!\$B\$17+OLS_Regression!\$B\$18*Data!L18)
6. Calculate Abnormal Returns(Share/Stock Returns(Actual Returns) minus Expected Returns(Normal Returns)=F18-M18)
7. Calculate Cumulative Abnormal Returns(by summing Abnormal Returns for the event period (21 days)(=N17+N18)
8. Calculate T-statistics (Abnormal Return/Regression Standard Error:-

=(N18/OLS_Regression!\$B\$7)
9. Check for Significance at 95% interval(=IF(ABS(P18)<1.96,"no","yes"))

Survey Documents

MERGERS AND ACQUISITIONS (M&A) QUESTIONNAIRE

1. How many mergers and acquisitions have you been involved in over the past years (between 2005 and 2014)?
2. How many were completed?
3. What kind of Valuation method/methods did you adopt for due diligence?

4. In your own personal experience, do mergers and acquisitions deals in general create value for shareholders? When answering the question, please also indicate the following:
 - Were there pre-determined outcomes, expectations or parameters, financial and non-financial, prior to the deals?
 - Do you have any post M&A performance assessment framework or financial indicators you monitor post M&A?
5. What would you consider to be some of the parameters that are very relevant to the Telecommunications, Media and Technology sector or ICT industry with regards to M&A?
6. Have you pursued some of the M&A deals in order to comply with BBEE/BEE laws or the ICT Charter?
7. How do M&A impact your company with regards to employment? Do you downsize or hire new staff?
8. How important is timing when executing an M&A strategy within the TMT sector?
9. How do? Or does M&A contribute towards socio-economic development?
10. In your own experience what do you think leads to a successful M&A and what causes M&A to fail?
11. Are there any specific topics you would like a study for Mergers and Acquisitions within the TMT sector to cover or investigate?

12. Do you believe this study is of importance to the TMT sector/ ICT industry and why?

13. Any other comments on and contribution to the subject matter?

LETTER OF CONCERN

Dear Mr/Mrs/Ms/..

Mergers and Acquisitions (M&A) are one of the ways by which firms attempt to create value for shareholders and the company as a whole. Most companies within the Telecommunications, Media and Technology (TMT) sector or ICT industry have been growing organically until recently when most of the markets became saturated in the past 10 years, characterized by increasing competition and technological advances compelling companies to look at M&A as a growth strategy in a bid to remain relevant and establish new sources of revenues.

However, most studies conducted on mergers and acquisitions found that about 60% of all mergers and acquisitions fail to create value for shareholders and given the growing appetite for mergers and acquisitions within the TMT sector or ICT industry it is imperative to understand if whether M&A transactions conducted are indeed creating or destroying value for shareholders. It is also important to understand what strategies lead to a successful M&A and what strategies lead to an M&A failure and how M&A impact employment and economy in general.

For these reasons I have decided to investigate M&A performance within the TMT sector using ten selected companies as case studies as part of my MCom Development Finance thesis at the University of Cape Town Graduate School of Business and I have chosen your company as one of the case studies. My study evaluates and assesses transactions announced between 2005 and 2014 by 10 selected companies as case studies namely AdaptIT, MTN Group, EOH, Telkom Group, Business Connexion, Naspers, Convergenet, Datatec, Pinnacle Holdings and Mustek. The study is using Event study methodology, key financial ratios and executive survey to study M&A performance within the TMT sector. In a nutshell, the main

objective of the study is about investigating if mergers and acquisitions performance within the TMT sector create value for shareholders both short-term and long-term.

Please sign below as evidence of your consent or agreement to answer the survey questions and for your permission to allow information you have provided to be used for academic purpose only.

Thank you in advance.

Yours Sincerely,

Tom Tshitangano

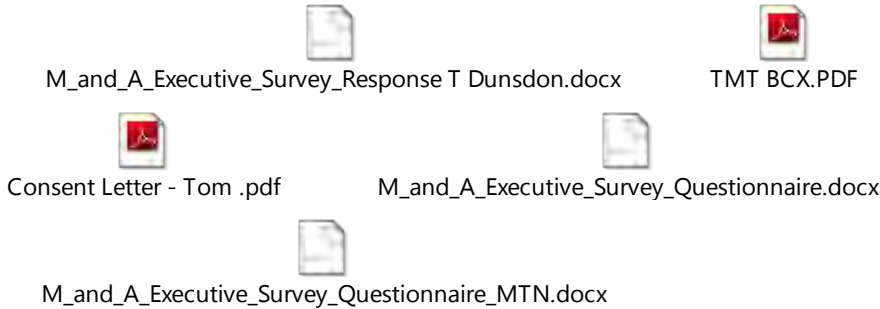
Company Name: _____

Executive Name: _____

Position: _____

Date: _____

Signature: _____



Data Related Documents

