

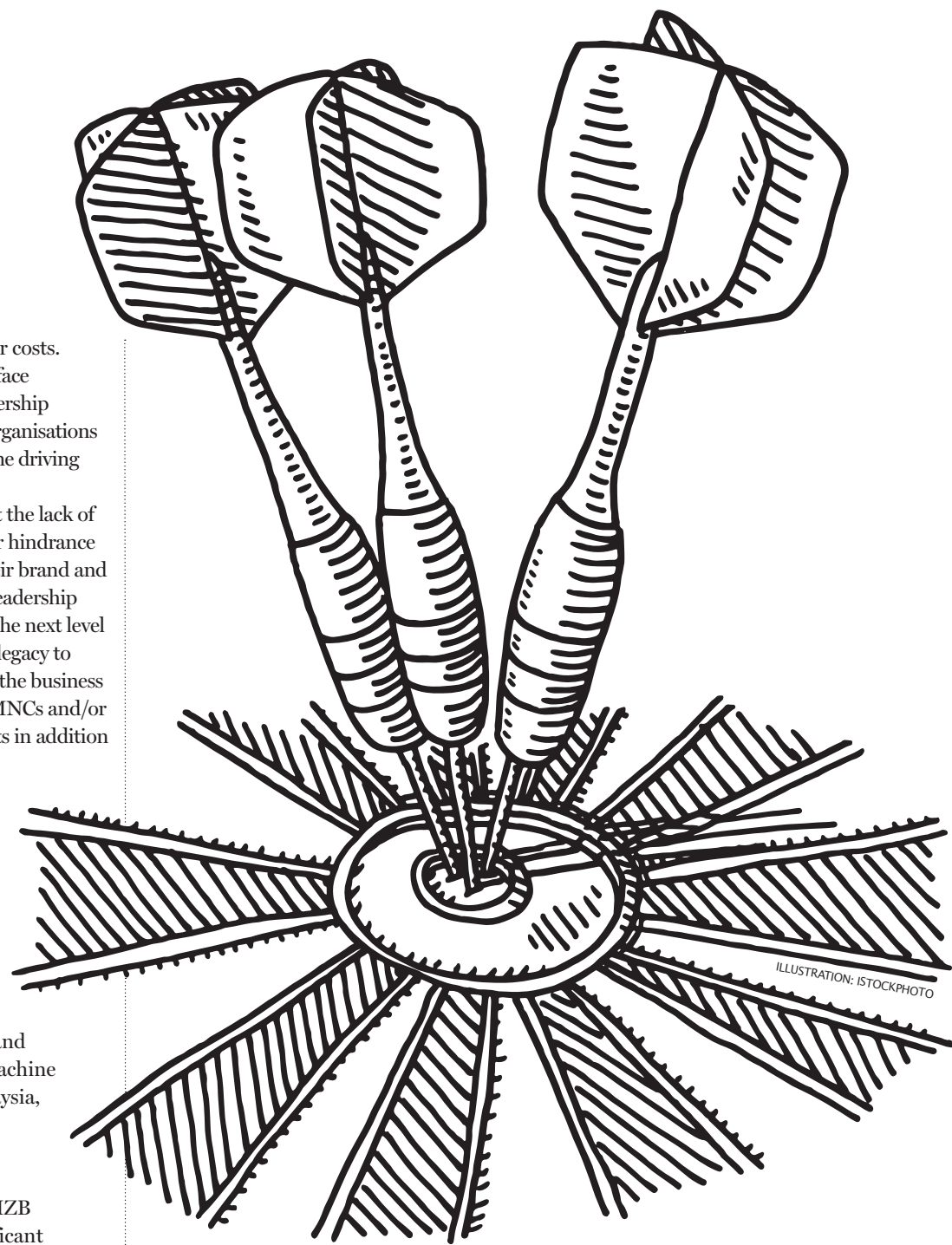


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USING MERGERS TO RIDE THE WAVE OF GROWTH

BY BENJAMIN ONG & YAP KWONG WENG

Singapore's SMEs are attractive targets for multinational corporations and private equity funds seeking to tap into the sizable Asean growth story

SINGAPORE has observed an upward trend in mergers and acquisitions (M&A) activity over the past five years. This was particularly so in the small and medium enterprises (SMEs) space, where companies have an annual turnover below S\$100 million or fewer than 200 employees.

In 2017, approximately 77 per cent of the 112 recorded M&A transactions with disclosed deal sizes among Singapore-based targets were under S\$250 million in transaction size.

This trend was closely mirrored in Asean, where around 82 per cent of the 381 recorded M&A transactions were under S\$250 million in transaction size. Singapore, Malaysia and Indonesia accounted for 65 per cent of the 381 recorded M&A transactions.

Asean is currently the world's sixth largest economic bloc with a combined gross domestic product (GDP) of over US\$2.5 trillion and a population of over 630 million. It is a major global hub of manufacturing and trade, as well as one of the fastest-growing consumer markets in the world. Asean's GDP is forecasted to grow at 6 per cent per annum until 2025. By 2050, Asean is predicted to become the fourth-largest economic area in the world.

The opportunities for Singapore's enterprises are thus immense. They have grown up in an economy with relatively advanced levels of development, technology, education and access to global markets. They are already the heart and soul of Singapore's economy, making up 99 per cent of its enterprises, employing two-thirds of its workforce and contributing nearly half of national GDP. And now, many are in a position to take advantage of the Asian growth story.

A significant number of SMEs in Singapore enjoy good corporate governance; have recognisable brand names and intellectual property; employ professional and highly skilled workforces; and utilise relevant technologies. Many local companies have also established strong overseas footprints in sectors ranging from manufacturing and logistics to food and beverage.

The combination of these reasons makes Singapore's SMEs attractive targets for multinational corporations (MNCs) and private equity funds (PEs) seeking to tap into the sizable Asian growth story.

A SYMBIOTIC RELATIONSHIP

While MNCs and PEs look to Singapore SMEs as vehicles for expansion into Asian, a large number of SMEs also turn look to MNCs and PEs for assistance as they face various issues.

Examples include difficulties in succession planning, capital constraints, technological disruptions, lack of internationally seasoned management expertise, increasingly competitive

landscape and rising land and labour costs.

In particular, Singapore SMEs face the growing problem of a lack of leadership succession, especially in family-run organisations where the original founders remain the driving force and face of the business.

Founders are acutely aware that the lack of succession planning can pose a major hindrance to growth which could jeopardise their brand and legacy. In order to provide the right leadership and strategy to take the company to the next level while allowing the founding family's legacy to prevail, founders often look to divest the business or form strategic partnerships with MNCs and/or PEs that can provide strategic benefits in addition to capital contributions.

One example of this symbiosis between SMEs and MNCs is that of the US\$85 million acquisition of the Singapore-based Boncafé Group (Boncafé) by Massimo Zanetti Beverage Group (MZB Group) in 2014.

MZB Group is a global leader in the coffee space while Boncafé is a regional leader in the roasting and sale of gourmet coffee and coffee machine equipments across Singapore, Malaysia, Thailand, Hong Kong, Cambodia and Indonesia.

Both Boncafé as well as MZB benefitted from the transaction – MZB Group was able to establish a significant presence in the fast-growing Asean coffee market, while the founders of Boncafé received an investor keenly focused on growing the brand while maintaining the legacy built (over more than 50 years) by the founding family.

To quote MZB Group president Massimo Zannetti, "with (the acquisition of Boncafé), (MZB Group) will have the opportunity for further expansion in the Asian market, ensuring production and distribution capacity is sufficient to meet the growing demand for coffee in the area . . . without making drastic changes to the successful business model and without changing its brand name."

The broader narrative facing Singapore's SMEs has always been about reinventing themselves or going international to meet current market demands.

However, with the rapidly changing business landscape, it is also timely for Singapore enterprises – especially SMEs – to consider their options and develop a strategy that shapes their future.■

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