Caribbean Mergers and Acquisitions
Recent Experiences and Lessons

Jwala Rambarran and Cherelyn Elbourne

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Jwala Rambarran and Cherelyn Elbourne*

* The authors are Chief Economist and Research Analyst, respectively, at the CMMB Research Centre. The views expressed are those of the author and not necessarily those of the Research Centre.

1. Introduction

In today's dynamic global community, companies are looking more to mergers and acquisitions (M&A) as the instrument for their organic growth. According to Thomson Financial, announced worldwide M&A deals in the first quarter of 2006 climbed to US$880.8 billion, almost 45% higher than the value of deals announced in the year ago period. Approximately 22,000 mergers were proposed worldwide in 2005 amounting to the largest volume on record since the M&A boom began in 2000. The main alchemy behind mergers or acquisitions is the concept that one plus one equals three, that is, the combined value of two companies should create greater shareholder value than two individual corporate entities. The naked truth is, however, that the great majority of M&A across all industries do not keep up to their promises and expectations. In fact Palmer (2002) estimates up to 70% of M&A deals fail.

The recent upsurge in Caribbean mergers and acquisitions mirrors the global appetite for organic growth and enhanced competitive capacity. In October 2002, one of the more significant mergers was conducted between Canadian Imperial Bank of Commerce (CIBC) and Barclays Bank PLC to form First Caribbean International Bank (FCIB), the largest bank by asset size in the region. While its financial profile has improved, FCIB's integration process was not as seamless as anticipated. Similarly a more recent alliance between Ansa Finance Limited and TATIL to form Ansa Merchant Bank Limited (AMBL) in Trinidad and Tobago is yet to bear fruit. According to Harding and Rovit (2005) one way to improve the odds of making successful acquisitions is to study and learn from other companies' merger errors.

This paper therefore investigates the merger experiences of FCIB and AMBL in order to distil some lessons for other entities contemplating mergers. This is particularly relevant to One Caribbean Media (OCM), a merger between two leading Caribbean media houses, Caribbean Communications Network

(CCN) and Nation Corporation. Section 2 briefly discusses regional trends in M&A while Section 3 evaluates the cases of FCIB, AMBL and OCM, making some recommendations on the way forward. Section 4 concludes the study.

2. Regional Trends in M&A

Table 1 shows recent M&A activity in the Caribbean, with acquisitions dominating most of the deals. The financial sector represented the largest sector targeted for M&A deals, a reflection of global trends. Manufacturing and Media followed as the second and third ranked leaders.

A merger is typically a business combination of equal size, more precisely referred to as a "merger of equals". Usually one company would purchase the other and based on the agreed terms the target company will endorse a proclamation of a merger of equals which is more palatable than the term takeover. When the purchase of a merger is made through cash or a debt instrument, the sale is usually taxable, providing a tax benefit for the acquiring firm. As Table 1 indicates mergers can take various forms. Vertical mergers arise when the acquirer forms a merger in an attempt to move up or down the supply chain, as in the case of AMBL.

Horizontal mergers occur when two companies operating in the same or similar industries form an alliance, similar to that of CCN and Nation (OCM). Conglomerate mergers are formed when two companies from different industries form an alliance, usually with little or no synergies to be reaped. There has been no conglomerate merger in the region. The product-extension merger arises from two companies selling related but different products in the same market, for example, NEMWIL and Caribbean Home Insurance Company which merged to form Guardian General Insurance Limited.

Table 1. Recent Caribbean M&A Activity

Company	Details	Date	M&A Type

Capital and Credit Merchant Bank	Acquired Jamaica Unit Trust	2004	Acquisition
First Caribbean International Bank	Merger between CIBC and Barclay's PLC Acquired ABN AMRO	2004 2005	Horizontal Merger
Ansa Merchant Bank Limited	Merger of Ansa Finance Bank and Tatil General and TATIL Life Insurance	2004	Vertical Merger
Guardian Holdings Limited	Zenith and Link (Europe)	2003	Acquisition
Angostura Holdings Limited	Acquired an interest in Belvedere S.A, Marie Brizard S.A, E &A Scheer S.A	2005	Acquisition
Sagicor	American Founders Life	2005	Acquisition
Supreme Ventures Limited	Acquired Jamaica Lottery Company	2004	Acquisition
Life of Jamaica	Acquired First Life Insurance	2005	Acquisition
Ansa McAL	Acquired A.S Bryden, Reed Monza and a 50% interest in Caribbean Roof Tile Limited	2004-2005	Acquisition Acquisition
GraceKennedy Limited	Hardware and Lumber with Rapid and Sheffield	2004	Merger
Telecom Limited	Acquired Sunbeach comunications Limited	2006	Reverse Merger
One Caribbean Media	Merger between CCN and Nation Corporation	2006	Horizontal Merger
CL Financial	Increased interest in RBL to 53%	2004	Takeover
Republic Bank Limited	Acquired Reliance Stock brokers Limited now Republic Securities Limited, Banco Mercantil S.A now Republic Bank (DR) S.A.	2004 2003	Acquisition Acquisition

Source: CMMB Research Centre

In contrast, an acquisition is a business combination of unequal size. Legally the target company ceases to exist and the bidder's stocks continue to be traded and unlike mergers it usually involves one firm purchasing another in a process which may either be congenial or hostile. Another type of acquisition is a Reverse Merger in which a private company purchases a publicly listed company, one which has little business or assets to enable the bidder to get listed in a short space of time. This can be related to the takeover of Barbados' Sunbeach Communications by Trinidad's Telecom which already has approval from the SEC to re-list after the former was suspended from trading in 2004.

The main concerns surrounding Caribbean Mergers and Acquitions arise from the increase in market and monopoly power as well as the lack of regulations regarding cross border acquisitions and take-over bids, the effects of such corporate restructuring on shareholders' returns and the efforts needed to bring value commensurate with the cost of the acquisition to the table. The recent merger of Pan Jamaica's Hardware and Lumber with GraceKennedy underestimated the growth of its information system requirement for 2005. Subsequently, the company installed a third system to improve the post-merger operation.

In 2004, CL Financial bought a 10% block of RBL shares increasing its interest to 53%, and prompting the government to propose amendments to the Financial Institutions Act which would make M&A's subject to approval from the Minister of Finance in addition to consultation with the Central Bank of Trinidad and Tobago. These amendments monitor the holdings of the entity, limiting any possible monopolies by rejecting any increase where an entity already controls forty (40) percent or more of the market. Additionally the FIA would address the availability of information exchange on institutions which operate locally with foreign head offices; to monitor external monopolistic control.

Caricom has proposed the establishment of a Competition Commission and is also negotiating competition law. Currently, Jamaica and Barbados are the only two countries within Caricom to have established both competition laws and agencies, leaving their Regional peers to keep pace especially in the wake of impending Regional trade agreements. These regulations are essential to hinder achieving monopoly status, being assigned to one corporate entity as the region continues to pursue new growth opportunities.

An M&A is dependant on whether the purchase is hostile or friendly, and how it is communicated to the board of directors, employees and shareholders of the target company. An M&A is sought for different reasons but unique to most is the impetus of synergies and consolidation which should create the following benefits of lower financing cost;, economies of scale – improved market share, revenue growth and

earnings, lower purchasing costs; surplus cash; complementary resources; improved operational efficiencies; industry consolidation and takeover deterrent.

The following case studies of three Caribbean M&A deals seek to determine the extent to which these benefits were realized in the post merger phase.

3. Case Studies of Three Caribbean M&A Deals

(a) First Caribbean International Bank (FCIB)

One of the Caribbean's most significant mergers, First Caribbean International Bank (FCIB) was born of two highly reputable financial institutions; Caribbean Imperial Bank of Commerce (CIBC) and Barclays Bank PLC in October of 2002. Toronto Based CIBC and Barclays's of London established a presence in the Caribbean in 1920 and 1837 respectively. The banks, however, excluded from the merger CIBC's wealth management and Barclay's private banking operations but focussed on the retail, corporate and offshore banking businesses. After the merger FCIB became the largest bank in the Caribbean with an asset base of US $9.5 billion and a market capitalisation of approximately US $2 billion. Whilst it's financial profile has improved since then, FCIB's post-merger integration process was not as seamless as anticipated with both business and human integration challenges rearing their heads.

To transact this alliance, Barclay's transferred it's Caribbean operating assets to CIBC' Caribbean Group for 666, 001,367 shares in CIBC. Both companies then had a 45% shareholding in FCIB, and the remaining 10% being traded on the stock market. As the largest banking entity in the Caribbean FCIB's capital foundation had a solid start with sound capital adequacy, which was evident in its healthy capital ratio of 19% in 2003, one year after the merger.

First Caribbean benefitted from the reputation and expertise that its heritage banks brought to the table. Barclay's, for instance, dominated market share in the trustee services segment especially in Barbados whereas CIBC had a sound

foundation in Merchant and Investment Banking operations. Additionally both banks were registered on the Barbados Stock exchange. According to a McKinsey study, managers tend to focus more on business integration which includes the legal, financial and operational elements placing less importance on maintaining and retaining key talent and fostering corporate culture. A Watson Wyatt survey (1998-99) showed that 76% of respondents believed that retention of key talent was critical followed closely by communication, retention of key managers and culture integration. The test then of FCIB's success would not less dependent on the increase in revenues following the merger but its ability to sucessfully manage its talent and integrate two distinct cultures into a dominant one to essentially realise the revenue possibilities.

The bank recognised high restructuring and integration costs of US$ 25.9 million and US$ 18.9 million in 2002 and 2003, respectively, which worked to squeeze profits for the first few years of the merger. Overall First Caribbean estimated the total restructuring and integration charges to total US$ 76 million. Despite these costs, post-merger synergies were not guaranteed. Considering the size of both banking entities, merging two different corporate cultures proved to be a challenge.

FCIB rationalised and upgraded its communication systems but Barclay's outdated IT system appear to have weighed on costs and posed some integration difficulties. Despite this the merger helped to provide cost savings by rationalising both front and back office operations and to improve revenues from new banking products and services.

Since the merger in 2002, FCIB has exhibited positive growth during those crucial years immediately after the change. Profitability has improved significantly with First Caribbean reporting a ROE of 17% in 2005 compared to 7% in 2002. Growth in net income over the last four years has been around 84% after adjusting for the extraordinary gains related to the sale of Republic Bank shares in 2005.

Financial Ratios – FCIB 2001-2004

	Comparable Financial Statements				
Financial Ratios	2001	2002	2003	2004	2004
Profitability					
Operating Profit Margin	27.24%	21.72%	35.17%	69.12%	56.21%
Net Profit Margin	21.73%	2.70%	18.45%	22.13%	53.80%
Leverage					
Total Debt to Total Assets (excluding goodwill)	98.05%	93.67%	92.33%	88.93%	91.06%
Total Debt to Total Assets (including goodwill)	98.05%	93.67%	92.33%	85.83%	88.15%
Total debt to Equity	4252.79%	786.24%	672.59%	614.96%	757.99%
Performance					
ROE	68.76%	59.00%	7.90%	9.01%	24.90%
ROA (excluding goodwill)	1.39%	37.00%	1.11%	1.19%	2.70%
ROA (including goodwill)	1.39%	39.00%	1.11%	1.19%	2.70%
Total Asset Turnover	0.04	0.02	0.05	0.04	0.06
Multiples					
Price to Earnings Ratio	20.13	263.16*	27.88	26.76	9.19
Price/Sales	4.37	7.11	5.14	5.92	4.94
Price/Book	12.14	1.41	1.78	1.96	2.13

* EPS in 2001 was US$.01

In terms of operating efficiency (measured by cost to income ratio), FCIB has been able to recognize significant improvements resulting in part from the restructuring exercise. The ratio has fallen from 69% to 61%. In addition by 2005, First Caribbean was sucessful in removing all charges relating to restructuring and integration. First Caribbean continues to be a dominant force in the regional financial landscape four years after the merger.

Some critical success factors were identified when analyzing the case study of First Caribbean International Bank:

- First Caribbean's ability to integrate the banks on time and within budget so as to realize the planned synergies
- The ability of First Caribbean to achieve higher returns by converting its cash and short-term investhe 1(i)0.2(e.9(0.304 -5(a)12.4TJ)]TJ0 -2(k)-5.9(:)-5.6( )]12.1hen ana

underwrite bonds and grow its loan capacity and hence its balance sheet. The bank was on stream with developing new financial products and was able to enter the mutual fund market as a result of its enhanced capital base.

After year one of operations as a merger, the Group's income and expenses rose considerably by 237% and 265%, respectively, the net result of which boosted Operating Profits by 186% to TT$107 million. The anticipated synergies were not achieved within the first year as evidenced by the fall in operational efficiency to 36% compared to 31% in the prior period. Total liabilities also moved up 85% to TT$1.6 million after the acquisition as a result of the insurance company.

The company's share price moved in tandem with the news of the merger and potenial economic value from possible synergies. Demand for the illiquid[1] stock increased as well as the price climbing 47% at the end of 2004.

At the end of year two of the merger the company reported relatively flat year end results from 2004 to 2005 as Earnings per share (EPS) (calculated by dividing the profits attributable to shareholders by the number of ordinary shares in issue) improved by 18.6%. The Insurance segment also improved, accounting for 47% of the Group's Total income. Although income improved expenses increased by 19% as a result of a provision for first year reserves made for 40% of new insurance operations in Barbados.

Although the insurance business segment contributed more positively to the Merchant Bank's income operating profits remained flat as a result of an increase in claims incurred. Overall, operating profits for both Merchant Banking and Insurance deteriorated as evidenced by declining operational efficiency measures, suggesting that proposed synergies are yet to materialise and post–merger integration may take the company some time.

[1] The Parent company of AMBL, Ansa McAl holds more than 82 % of the issued share capital (70.6 million). Therefore the stock unavailability is an influential factor driving price appreciation.

This unfortunately could continue to be translated into less stellar shareholder value.

The company intends to continue developing new product lines after launching it's first mutual fund in 2005, The Ansa Secured fund. The weakening equity markets and unfavourable Fixed income returns in concert with declining investor confidence weighed heavilly on the investment gains of the company.

Profitability indicators including the Return on Equity and Return on Assets fell when compared to half year 2004 but by the end of 2005 ROE managed to surpass the previous years performance whilst ROA trended down. The strategy for TATIL going forward is one of organisational restructuring including physical expansion into Chaguanas which should bring both entities in closer proximity to each other; this restructuring is expected to help unlock untapped synegies.

Critical challenges for Ansa Merchant Bank

- Similar to FCIB, the Merchant Bank must focus on integrating the operations of both the bank and the insurance segments within budget.
- Unlike FCIB, after the first year AMBL's merger seems to be seaching for optimism however it is still too early to identify if anticipated overall synergies are in fruition.
- The company is the first to integrate Merchant Banking operations with an Insurance company a feat that seems to be challenging the entity considering that expenses incurred from its insurance component are weighing on its operational efficiency.
- The company's debt position showed some improvement which must be maintained to improve financial flexibility in order to successfully source financing for further expansion in accordance with organizational objectives.
- Failure to keep pace with other financial institutions in terms of new product development as competition in the local financial services sector

become more aggressive. Also, existing financial players are also adopting new growth strategies and new players entering the market. As a niche competitior the company must continue to develop new financial/insurance products and services.

(c) One Caribbean Media (OCM)

One Caribbean Media (OCM) was formed in January 2006 through a merger between two leading Caribbean media houses, Caribbean Communications Network and Nation Corporation based in Barbados. Both companies have shared an interrelated history over the past years with each holding a 20% interest in the other and both share a progressive intra- regional outlook. As regional integration increases especially with the advent of the Caribbean Single Market and Economy (CSME) and FTAA, this new merger is expected to be a new platform for competition and sustainable growth. The expectation is that as integration deepens, the demand for regional advertising should also strengthen regional advertising as companies move to enhance their sales potential and penetrate untapped markets.

This merger would be effected by a non-cash transaction. The CCN Board intends to issue 27, 680, 102 new series "B" shares to the Nation shareholders which would represent their stake in the new entity, OCM. Current shareholders in CCN would retain their holdings which would now be known as series "A" ordinary shares. After this shares outstanding would increase to 65.7 million, with CCN shareholders retianing 58% ownership of OCM while Nation's shareholders retain the remaining 42%[2].

The company plans to cross-list OCM in Barbados and issue 3 million ordinary shares both in Barbados and Trinidad to allow for existing employees and the local public the opportunity to invest in the new company. Proceeds from this sale

[2] CCN's Circular to Shareholders 2005

would be used to reduce repurchase an equivalent number of shares from ESOP to reduce those holdings.

Financial Ratios – OCM and Industry Peers 2004-2005

	Comparable Financial Statements			
Financial Ratios	OCM	TPUB	GLNR	RJR
Profitability				
Operating Profit Margin	24.19%	28.00%	18.30%	13.30%
Net Profit Margin	23.13%	20.30%	12.50%	10.00%
Leverage				
Long term debt to equity	4.32%	10.50%	20.70%	18.40%
Total Debt to Total Assets (excluding goodwill)	27.68%	17.50%	40.50%	24.80%
Total Debt to Total Assets (including goodwill)	27.68%	17.00%	34.60%	24.80%
Total debt to Equity	17.50%	20.50%	52.90%	33.00%
Performance				
ROE	25.63%	18.30%	17.70%	12.10%
ROA (excluding goodwill)	18.54%	15.60%	13.60%	9.10%
ROA (including goodwill)	18.54%	15.20%	11.60%	9.10%
Total Asset Turnover (excluding Goodwill)	0.14	0.11	0.09	0.14
Total Asset Turnover (including Goodwill)	0.14	0.11	0.09	0.14
Multiples				
Price to Earnings Ratio	8.85	25.4	8.4	15.1
Price/Sales	4.3	5.1	1	1.5
Price/Book	2.2	4.6	1.5	1.8

Sources: OCM ratios calculated on the basis of proforma statements published in the CCN Circular to Shareholders, Published Financial results for respective companies
TPUB - Trinidad Publishing Limited
GLNR - Gleaner Company (Jamaica)
RJR Radio Jamaica Limited (Jamaica)

Both companies are market leaders in the respective markets both maintain operations in television, radio, print and other related operations. Whereas Nation's operations are based in Barbados, CCN has a broader regional scope with operations in Grenada. This merger is considered healthy for both Nation and CCN given their 30 year interrelated history and progressive intra- regional outlook which should auger well for the company's post-merger business

integration process. The new company is set to release it first results as a merger in December of 2006

OCM - Lessons to be learnt

FCIB's post-merger integration was slow to bear fruit and its financial position is now starting to improve in the third year of existence which may be attributed to high restructuring and integration costs in the first few years which negatively impacted the Group's profit margin. FCIB therefore was unable to meet its anticipated synergies of US$150 million by 2005. The question arises as to whether proper due diligence was undertaken for such a large venture.

Improving financial performance through revenue and profit growth therefore were not accomplished in the estimated time which can be addressed by acknowledging the results of a recent Tower Perrin International survey on mergers and acquisitions. The survey highlighted financial performance, loss of productivity, incompatible cultures, loss of key talent and clashing management styles as contributors to M&A failure. The last three human resource related issues was another challenge faced by the FCIB given that management tend to place more emphasis on the legal and financial operations. OCM's focus then should be on adopting an inclusive role of this element considering that there is a heavy reliance on all to implement the new strategy and adapt the new culture of the media merger.

FCIB benefited from cross-operational expertise of its parent banks as both Barclay's and CIBC brought differing specializations to the table. OCM's post-merger integration is also hopeful given that they are both market leaders and maintain a strong brand loyalty and recognition in the markets in which they operate.

Unlike FCIB and AMBL, OCM has a better chance at post-merger integration due to CCN's long standing relationship with Nation Corporation, which is expected to alleviate concerns of clashing management styles.

Although Trinidad is yet to adopt the Competition policies and laws, OCM should benefit from regulations which could prevent the entity from being controlled by monopolistic powers since it has merged with a Barbados entity. It has also adopted a mechanism for a shareholders' rights plan to protect its shareholders against any disruptive takeover abuses and enhance ownership stability.

OCM – The Way Forward

- Focus on including key assets, key talent in the integration process through all phases of the merger to improve post-merger integration.
- Monitor the financial aspect of the organization and focus especially on maintaining lower costs to avoid eroding shareholder value further to possible dilution on issuing new shares.
- The expectation is that as integration deepens and the region continues to adopt freer trade the company would seek further regional and extra-regional expansion given that both companies (Nation and CCN) are already market leaders in Barbados and Trinidad.

4. Conclusion

Mergers and Acquisitions in the Caribbean has made its mark as the way forward in establishing a competitive advantage through growth, creating shareholder value to keep pace with international standards. However numerous studies have advocated a high rate of failure for these measures. Post-merger integration and anticipated synergies are not guaranteed in the short-term and for companies like FCIB the benefits were unrealized for some time. The issue of regulations must be addressed and adopted by more Caribbean countries to prevent monopolies from abusing their power and prevent new ones from being formed via mergers. Further this should also address the possibility of foreign companies from increasing ownership or creating monopolies in Caribbean countries in the advent of the impending trade agreements. This trend is not expected to slow especially as regional market competition is on the rise it is therefore inevitable for Caribbean

counterparts to study and learn from other companies' mistakes and adapt where appropriate the habits of successful M &A's.

A more holistic approach to implementing this strategy is recommended as mergers are difficult to execute given the many intricacies and activities associated with integration, each as important as the next. The integration process therefore is a valuable key to synchronizing synergies as well as ensuring that due diligence is performed and the best deals selected. Also, the early management of corporate culture is necessary to avoid disharmony. One key stakeholder that needs special attention is the customer of the company. Customers should also take a key role in management's integration focus. A merger is extremely sensitive to customers who must be kept informed to maintain consumer confidence in the old and essentially the new company.