More SMEs taking the merger route

Last year alone, the number of merging firms rose 57 per cent to 104

By CHEN HUIFEN

[SINGAPORE] Increasingly, the Republic's SMEs are dropping the "S".

Small and medium enterprises appear to have become more receptive towards mergers over the past few years, and the trend could continue to grow, suggests data collated by BT and the Accounting and Corporate Regulatory Authority (ACRA).

The number of company mergers has been climbing steadily since 2006 – the earliest year that data can be tracked – with a total of 279 companies getting involved in 119 mergers. Last year alone, the number of merging firms went up 57 per cent to 104. Together, they resulted in 45 merger cases, up from 26 cases in 2008. Last year's number was a six-fold increase over 2006, when only seven mergers took place.

The data track amalgamations, in which the shares, assets, legal rights, properties and obligations of a target company are entirely transferred to another firm. In other words, two or more companies merge and operate as one company, either as one of the merging firms or as a new company.

Observers said that the growing trend is partly the result of a change in the Companies Act which came into effect in 2006 and allowed for voluntary amalgamations without the need for court approval.

Macro-economic conditions might have also come into play.

"MNCs in the manufacturing sector are reducing their list of approved suppliers and service providers," said Stone Forest Corporate Advisory director Tay Woon Teck. "Our SMEs, in order to be in this approved list, are forced to become bigger, stronger and to acquire broader skill sets and technologies. This has encouraged SMEs, in particular, in the precision engineering sector, contract manufacturers, electronics and component distribution players, to consider M&A."

Close to two-thirds of the merging companies had issued capital of $5 million or less – the typical size of SMEs here. In the first two months of this year, there were 44 merging firms, giving rise to 15 merger cases. By comparison, during the same period last year, there were 11 merging firms and five cases of merger.

"Early 2010 was a period of nascent economic recovery after the global financial crisis of 2008," said Singapore Management University finance professor Francis Koh. "It is a period where many company owners have a more optimistic outlook and this time, the amalgamations are quite likely focused on consolidations for rapid growth."

ACRA chief executive Juthika Ramanathan noted that most of the mergers captured in the study involved subsidiaries merging with the holding company, or the amalgamation of wholly owned subsidiaries under the same corporation.

"Most subsidiaries which merged were engaged in a combination of different and unrelated activities, while most amalgamations involving unrelated companies were of similar activities," she added.

In reality, there are other kinds of M&As not tracked by the BT-ACRA study. For instance, the mere acquisition of the shares of a company by another firm will not be registered as an amalgamation in ACRA's database.

"You can also do acquisitions without amalgamations – keep the company as a wholly owned subsidiary, but operationally, you project yourself to customers as one organisation," said Nanyang Business School associate professor in banking and finance Ho Kin Wai. "And the other type of acquisition is also very common. I just buy the assets without buying the shares. That is another method of expanding via acquisition."

More than 80 per cent of the mergers in the past four years involved two companies, the rest involved more than two firms at one go. About 77 per cent of the companies were in the 20th year of operation or younger at the time of merger, with the median age of amalgamating firms at 16 years old.

"Our experience showed that many of these established companies are family owned, and their second or third generation are not interested in the business," said Stone Forest's Mr Tan. "Therefore, it is better for these companies to exit the business."

Looking at the data over four years, most of the merging firms came from the wholesale and retail trade sector (22 per cent), manufacturing (22 per cent), financial and insurance (15 per cent) and transport and storage (11 per cent). They were followed by firms in the professional, scientific and technical industry (9 per cent), administrative and support services (8 per cent) and information and communication sector (8 per cent).