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A review of Debswana's performance pre and post the acquisition of De Beers shares by Anglo American plc.

Khumo Mothulatshipi

A research report submitted to the Faculty of Engineering and the Built Environment, University of the Witwatersrand, in partial fulfillment of the requirements for the degree of Master of Science in Engineering.

Johannesburg, 2015

Declaration

I declare that this research report is my own unaided work. Where work of other authors has been used, it has been duly acknowledged. It is being submitted for the Master of Science in Mining Engineering to the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination to any other university.

…….

Signature

…… day of ……year ……..

Abstract

The minerals industry has in the last decade witnessed volatility, uncertainty, complexity and ambiguity (VUCA). The diamond industry has not been immune to these challenges. These challenges coincided with the decision of the diamond mining family in 2011 to opt out of De Beers after approximately a century of being in control by selling their 40 % stake to Anglo American plc (AA) which already had 45 % stake in De Beers. This transaction increased Anglo American plc's stake in De Beers to 85% thus joining venture with the Government of the Republic of Botswana (GRB) under an already existing entity called Debswana.

Botswana has been hailed as a beacon of success and a model African state both politically and economically mainly due to its effective management of economic proceeds generated mainly through Debswana diamonds. Something that might be seen as a possible threat to this economic stability is the merger and acquisition (M&A) between the GRB and AA. As a result this study was conducted as a way of investigating any possible impacts of the partnership of GRB and AA on the Debswana diamond company through the M&A transaction that occurred in 2011. The study was restricted to the mining operations in order to assess Debswana's performance more meaningfully pre and post the acquisition of De Beers shares by AA. The mining activities from Debswana operations comprise of Letlhakane, Damtshaa, Orapa, Jwaneng and Morupule Coal mine.

The study is focusing on the production statistics and financial analysis using stock market and financial ratios. These are discussed in detail to assess the possible impact of the merger on Debswana's performance. In addition to this, empirical evidence based on factors determining a firm's performance before and after acquisition or merger is also discussed, with further action of aligning determinants to the literature findings.

The study's key findings were that there has been a significant reduction in AA's financial performance post-merger but Debswana's performance has been fairly consistent. This is probably due to the fact that the 3-year post merger window period may not be sufficient to observe sufficient changes in Debswana's performance. Further research can be conducted on the current AA's repositioning strategy that aims at divesting in other operations and focusing on others and its impact on Debswana over a much longer window period than 3 years.

Dedication

This research project is dedicated to my late grandmother Gaedupe Mothulatshipi who always believed in me and encouraged me to be a better person in all aspects of life.

Acknowledgements

As a child is raised by a village in terms of the African traditions, it is safe to say that this report is a product of more than one person. I am immensely indebted to my supervisor, Prof. C Musingwini, under whose guidance this research report has been produced. His suggestions, corrections, constructive criticisms and tireless effort helped me to complete the research report. Indeed, I wish my mere saying of thank you would express how I sincerely appreciate his support. I say thank you and may God continue to bless him. My gratitude also goes to my colleagues and Debswana Jwaneng Mine Management especially, whose motivation and advice have brought me to this point of the academic ladder. I say may God richly bless you all.

My task would have been immensely difficult without the continuing support of my husband Kebaneetswe Nnyenyiwa, who always encouraged me to complete this research project meticulously and comprehensively. I thank him very much for his understanding and patience. Another person who cannot go without being mentioned is my mother. She single handedly always supported my endeavours to become a better person through education. She has given me unconditional support and unlimited love, my entire life. Extended thanks go to my brothers and sisters along with their families and friends for their moral support and prayers.

Last but not least, I thank God for guidance and the opportunities presented to me. As stated in the good book; in all things, give thanks to the Almighty God. Whenever the other side of life of creates despair and impossibility stares in the face, He is more than capable to turn them into hope and possibility. For His divine guidance and direction in the preparation of this research, I can only say thank you to Him.

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List of Abbreviations

AA	Anglo American plc.
AFC	Average Fixed Costs
AOL	American Online
CHL	Churchill Holdings Limited
Debswana	Debswana Diamond Company
DTC	Diamond Trading Centre
DTCB	Diamond Trading Company Botswana
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GRB	Government of the Republic of Botswana
IPO	Initial Public Offer
JSE	Johannesburg Securities Exchange
KPI's	Key Performance Indicators
LSE	London Stock Exchange
M&A	Mergers and Acquisitions
NPV	Net Present Value
OLDM	Orapa, Letlhakane and Damtshaa Mines
ROA	Return on Assets
ROCE	Return on Capital Employed
ROI	Return on Investment

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1. INTRODUCTION

1.1 Chapter overview

This chapter begins by discussing the diamond mining industry and continues by looking at the research motivation. It then takes an in-depth look into the profiles of the companies that were involved in the merger and acquisition transaction namely Debswana, De Beers and Anglo American plc (AA). The purpose and context, along with the statement of the problem and research objectives are also found in this chapter.

1.2 Mining industry overview

The minerals industry has in the last decade witnessed volatility, uncertainty, complexity and ambiguity (VUCA). Commodity prices reached their all-time highs and lows (Bonyongo, 2014). According to Bonyongo (2014), the millennium commodity boom brought profound economic, social and environmental effects, both positive and negative. The mining industry operates in an uncertain world. The industry is buffeted by problems such as low productivity, rising costs, volatile exchange rates and commodity prices, and the ever changing government regulations. These uncertain times over the last decade have affected sustainability, competitiveness and long term planning, thus in turn influencing a certain way of strategic planning to reassure and retain investor confidence. Several initiatives have been adopted by the industry in order to remain relevant to its investors and stakeholders.

The initiatives include downscaling of mining operations and diversifying of portfolios to spread the risk. Many organisations adopt merger and acquisition (M&A) strategies as a part of their corporate strategy to achieve their business objectives. Driven by globalisation, international businesses look for a bigger market to achieve economies of scales, so as to overcome the economic barriers.

Being part of the global village, the diamond industry has not been immune to such initiatives. The industry saw the diamond mining family, the Oppenheimers, opting out of De Beers after approximately a century of being in control. They did this by selling their 40 % stake to Anglo American plc (AA) which already had 45 % stake in De Beers (Marais & Biesheuvel, 2011). This transaction increased AA's stake in De Beers to 85 % leaving 15 % for the Government of the Republic of Botswana (GRB). De Beers also owns 50% of the joint venture between De

Beers and the Government of the Republic of Botswana called Debswana. This effectively implies that 42.5% of Debswana is listed in the public domain (on the Johannesburg Securities Exchange (JSE) and the London Stock Exchange (LSE)) through the ownership structure of AA. Like in any merger and acquisition (M&A) transaction, a change in the ownership structure brings a whole new dimension to Debswana in terms of risk, financials and management.

1.3 Research background

The diamond mining industry has been and is still the backbone of Botswana's economy as it contributes 33% and 50% to the country's Gross Domestic Product (GDP) and foreign exchange (forex) earnings, respectively. It has contributed significantly to the economic and social development of the country since 1969 (Ministry of Minerals, Energy and Water Resources, 2008). The high dependence on diamonds by the GRB indicates that Debswana contributes significantly to the country's economy. The management of Debswana is therefore very crucial to the country and anything that compromises or threatens the company's viability must be mitigated or eliminated in the interest of the country.

Jordan (2012) mentioned that De Beers has captured the imagination of the market and consumers for more than a century and remains one of the most renowned names in luxury goods and this is testament to its strong leadership. He further highlighted that AA's priority is to build on the outstanding work of the Oppenheimer family and De Beers' management to seize the opportunities of the evolving diamond market. Debswana had an opportunity to be directed technically by the Oppenheimer family who had insurmountable diamond mining and trading experience and now leadership has changed to a diversified publically listed company.

AA brings with it diversity to a predominantly single commodity company and this has risk (positive and negative) and opportunities to Debswana (DeMarco, 2012). The diversification runs across continents and commodities, (see Figure 1-1). AA is committed to making a positive contribution to sustainable development but has been cited by several reports in the media as being 'vulnerable' to opportunistic takeovers (Armitstead, 2012) due to the recent 'unpleasant' activities in their spectrum. There is a long list of undesirable complaints including a weak, declining share price (The Gurdian, 2014), slow copper production, delays to a huge iron ore project in Brazil, over-spending on acquisitions and the prolonged unresolved strikes, lay-offs and violence in the platinum mines in South Africa which lasted over a period of more than a

year thus resulting in significant production loss (The Gurdian, 2014). The violence also had a serious reputational risk on the company which impacted on the share price. This has had a negative impact on the AA income statement and could have a ripple effect to its other operations, with Debswana operations included. Debswana has been operationally sound, with its fair share of problems encountered during the economic recession by the nature of its product that is considered a luxury commodity.

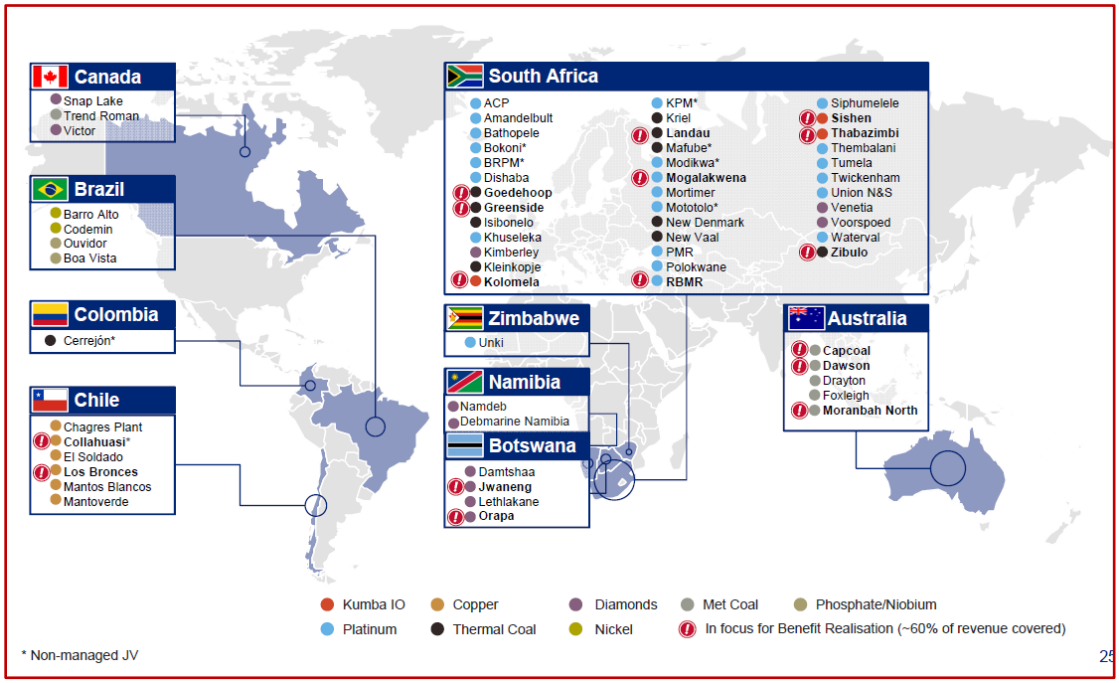


Figure 1-1: AA operations around the world **(**Source: **AngloAmerican, (2013)**)

1.4 Research motivation

1.4.1 Botswana's dependence on diamonds

At independence in 1966 Botswana was the third poorest country in the world, suffering from one of the severest drought in its history. It was heavily dependent on external aid, without an industrial base or pre-colonial manufacturing experience, non-existing infrastructure and low educational attainments. Botswana had one of the lowest GDP per capita in the world. Upon discovery of the kimberlite pipes between 1966 and 1974, Botswana changed to become one of the fastest growing economies in the world (The World Bank, 2015). Real GDP growth averaged at 16% between 1970 and 1974, and sustained high growth which continued until 1989. Mining became (and still is) the leading economic sector of Botswana (The World Bank, 2015).

Diamonds have provided the necessary condition for Botswana to experience the highest rate of economic growth in Africa from 1970-2000. They represent a remarkable boost to government revenues, through royalty payments, profit tax, withholding tax on remitted dividends, and the state's 50 % share in Debswana (McCammon *et al*., 2013). These are subsequently followed by big profits earned on the management of foreign exchange reserves by the Bank of Botswana (Good, n.d.).

Botswana through Debswana is now the number one diamond producer by value (Debswana, 2015). As such the GRB has a strategic obligation to maximize value creation and realisation of the diamond resources in the country. The growth in the diamond industry saw a reduction in the agricultural sector thus making Botswana a single commodity dependent economy.

1.4.2 History of diamonds in Botswana

Whilst mining in Botswana dates back to the early 1900's, diamond mining was recorded to have started in 1971 with the official opening of Orapa mine which was then owned by De Beers Botswana (Debswana, 2015). De Beers began prospecting for diamonds in the then Bechuanaland Protectorate in 1954 (McCammon *et al*., 2013), discovering more pipes around the Boteti area, Letlhakane and Damtshaa mines which were officially opened in 1975 and 2003 respectively. In 1982, a second mine, larger and richer was opened at Jwaneng. This has led to it being reputed as 'the richest piece of real estate on earth' (Debswana, 2015).

Before this era, Botswana was highly dependent on agriculture, especially cattle, exporting beef to the European Union (EU). Between 1970-80, when diamonds were still entering production, agriculture grew by more than 8.3 %, in the next decade by only 2.2 %, and then it "contracted down to an average of 1.2 % per annum" (Sekwati, n.d.), due not only to the perennial problem of drought but also to "relatively low investment" in the sector to which some may call 'Dutch disease', see Figure 1-2, (Sekwati, n.d.). To a large extent Botswana has also thus far been able to avoid the so-called "Dutch disease" or "resource curse" suffered by so many other mineral-rich economies, owing largely to its expenditure strategy (Sekwati, n.d.). Botswana has been hailed as a beacon of success and model African state both politically and economically mainly due to diamonds (The World Bank, 2015). Botswana has immensely invested and is still investing in the diamond future which proves the 'sacredness' of the diamonds.

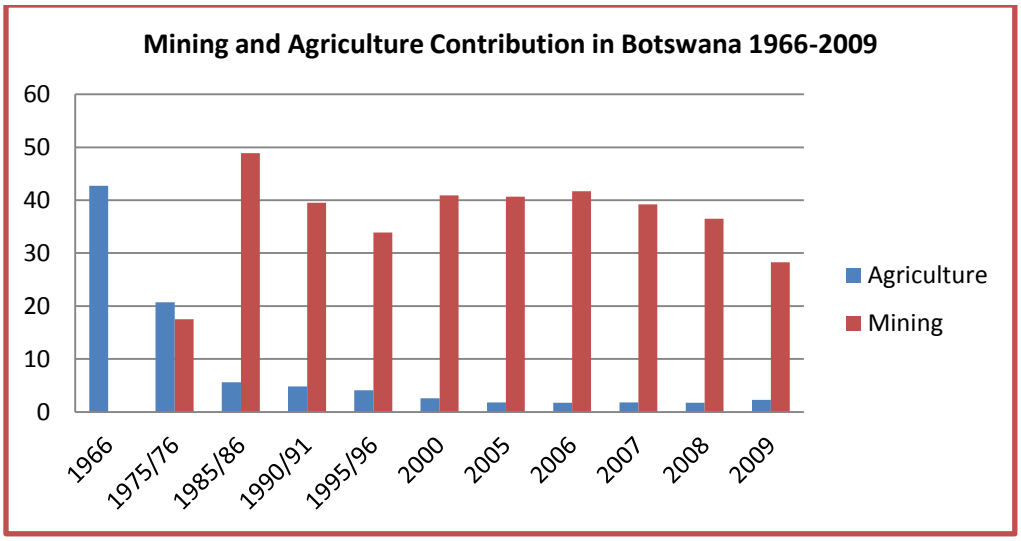


Figure 1-2: Percentage contribution of mining and agriculture to the Botswana‘s GDP between 1966 and 2000 (Source: Sekwati, n.d.)

1.4.3 Diamonds of today

The life of diamond resources (reserves) in Botswana extends beyond 2038 at the current market conditions; see Table 1-1 (Brook, 2012). With the efforts to diversify the economy, the GRB has introduced and amended several policies to get maximum value from these diamonds resources mined or to be mined in Botswana. One of the most successful has been the policy of diamond beneficiation (Grynberg, 2013) i.e. downstream processing of rough diamonds, which were previously exported as rough diamonds and processed elsewhere. The move is a result of the comprehensive changes contained in the 10-year sales contract signed between De Beers and the GRB in September 2011, which committed De Beers to relocate its Diamond Trading Company (DTC) marketing arm to Gaborone, (De Beers, 2011). The sales contract for the first time also granted Botswana direct access to the international diamond business. The Diamond Trading Centre of Botswana (DTCB) has internal agreements for buying 100% of the Debswana operation’s annual output thus guaranteeing markets for the rough diamonds. DTCB is also owned 50:50 by the GRB and De Beers which implies that AA is also a 42.5% shareholder in DTCB. The operations are now under new management due to the acquisition of the Oppenheimer shares by AA.

Table 1-1: Current diamond mining activities in Botswana and their planned life of mine

Mine (oldest first)	Latitude	Longitude	Size (Hectares)	Typical annual production (carats)	Life of Open pit Mine (year)
Orapa (1971) A/K1	25 22 08.73	21 18 30.63	118	14,000,000	Cut 4 to 2030
Letlhakane (1977) D/K1 & D/K2	25 41 22.01	21 31 12.24	15.2	1,000,000	To 2014, thereafter 20 years tailings production
Jwaneng (1982) D/K2	24 42 07.12	24 31 25.77	54	12,000,000	Cut 9 to 2029
Damtshaa (2003) B/K9, B/K12, B/K1, B/K15	25 31 57.67	21 18 29.04	24.5	230,000	B/K12 to 2017 B/K9 to 2026
Lerala (2008) K002,003,004, 005,K006	27 45 21.78	22 46 06.65	6.33	330,000	To 2021
B/K 11 (2010)	25 30 28.25	21 28 13.77	8	225,000	To 2020
A/K 6 Karowe Mine (2012)	25 28 14.00	21 29 59.00	4.2 to 7 at depth	400,000+	To 2022
Ghaghoo (formerly Gope - GO-25) 2013 - underground mine	24 46 40.64	22 37 14.12	10.3	600,000	To 2038

Source: The Journey of Botswana's Diamonds. Gaborone (Source: Brook, 2012)

1.4.4 Shortcomings of the diamond industry in Botswana

Despite its middle-income status, Botswana has to contend with challenges emanating from its narrow economic structure and the associated over-dependence on the mining sector, in particular diamonds (Peninah *et al*., 2014). While the government has a reputation for the prudent management of mining revenues and also boasts a good governance record and stable democracy, the need for diversification remains critical.

1.4.5 Oppenheimers sell their stake in De Beers

The Oppenheimer family began to control De Beers in the 1920s after Sir Ernest Oppenheimer founded AA in 1917. The tangible value of the diamond is in its sparkle and as a luxury product it tends to appeal less during difficult economic times as experienced by the family in the 2008-2009 economic challenges. De Beers under the leadership of the Oppenheimer family strategically laid the foundation for the diamond market of today before ending their control. They ended their control in 2011 when they sold their shares to AA which was already a major shareholder of De Beers. This happened exactly a year after the relocation of DTC (having opposed the move for years) from London and has seen a significant decline in their market share, (see Figure 1-3). A decline in the market share brings a whole new set of market dynamics, away from the monopolised ways which were beneficial to Botswana through the Debswana Operations.

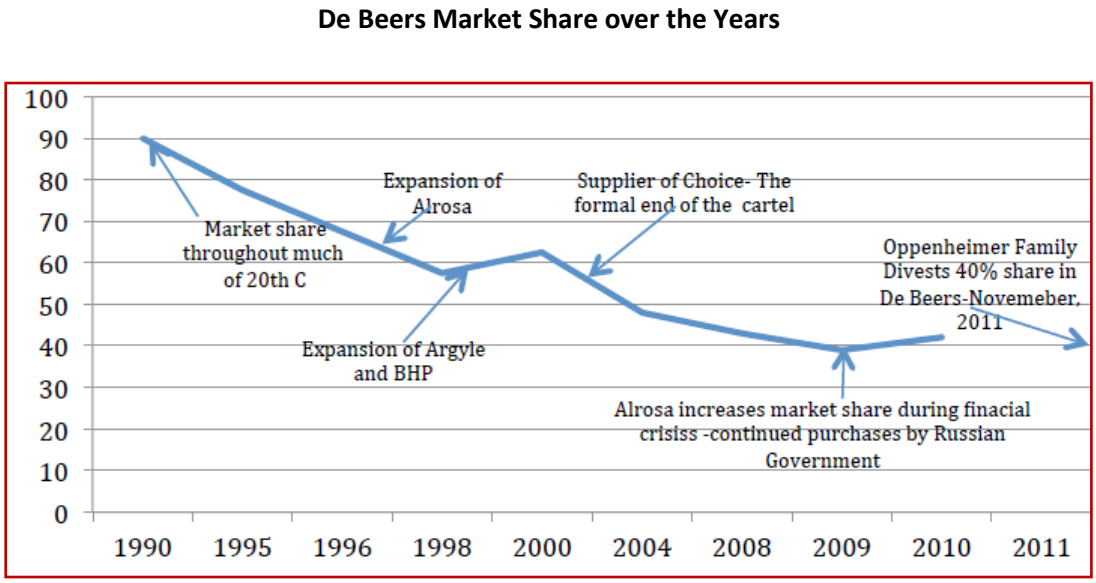


Figure 1-3: Decline in the De Beers market share over the years (Source: Sekwati, n.d.)

1.4.6 Anglo American plc exposure

AA has been cited by several reports in the media as being exposed to opportunistic takeovers, (Armitstead, 2012). This is also noticeable through a decline in the company's balance sheet over the past years and a few failed business strategies (Jamasmie, 2014). AA Platinum's production temporarily halted due to the industrial actions that took place at their Rustenburg operations resulting in the loss of platinum production amounting to 423,904 equivalent refined platinum ounces at the time of signing to end the strike. This equates to approximately R11.277 billion of lost revenue at 2014 prices, (Anglo American plc, 2014). AA also experienced a multi-million dollar fine for environmental breaches in Chile and this places AA's reputation at risk globally (Jamasmie, 2014).

1.4.7 Debswana in the global market

As already mentioned, in the VUCA concept several companies have closed in extreme market and operational conditions because they have failed to effectively mitigate risk and business continuity plans into their business models. Recent events in the world have brought risk into a higher profile (Hopkins, 2012). There are risks that Debswana is exposed to both operationally and business wise throughout its operations namely Jwaneng, Orapa, Letlhakane, Damtshaa (OLDM) and Morupule mines. How the company proactively manages uncertainty determines how it will survive the VUCA times. Debswana has in the past seven years navigated through the

operational and business risks (market down turn) with difficulties though to some extent reactively. Debswana was not immune to the economic meltdown (business risk) that happened in 2008-2009 and resulted in serious financial impacts.

1.5 Research question(s)/hypotheses

The research offers a perspective to the question; "*to what extent does the acquisition of De Beers shares by AA impact on Debswana's operating model and the economy of Botswana when comparing Debswana's pre-merger and post-merger performance*". How will Debswana ensure business sustainability or continuity in the event of risks materialising in order to have minimal impact on the GRB thus the economy of Botswana? The following sub-questions were also addressed in this research study:

- Why did the Oppenheimers sell their De Beers shares after decades of controlling the diamond empire, which seem to be coincidental with the relocation of their downstream activities to Botswana from London?
- Given the opportunity, why did the GRB not buy the Oppenheimer's De Beers shares?
- How will AA's 'vulnerability' to potential take-over affect Debswana in future?

1.6 Problem statement

The purpose of this research is to evaluate the impact of the AA (diversified) acquisition of De Beers on Debswana pre and post-merger performance and risk associated with the change. The Oppenheimer family sold their near century controlled De Beers to AA which introduced a new dynamic to the business and operational functionality of Debswana. Debswana through diamond mining has been the backbone of the economic development of Botswana for the past 45 years and is still forecast to improve due to the relocation of the DTC from London to Botswana. It is therefore imperative for the company to proactively manage the business and operational risks and opportunities that may be brought by the 'new' partnership with AA through De Beers. This will enable the company to formulate the business continuity plans incase the events that could cause negative impacts occur and be able to seize the opportunities of positive impacts that are brought about by the diversified nature of AA.

1.7 Purpose of the study

The purpose of this research project is to analyse and understand the impacts of the new ownership structure on Debswana by focusing on risk and the success of the mergers and acquisitions (M&A). It also aims to analyse the implications of the increased stake of a diversified listed multinational company on Debswana.

1.8 Research objectives

The main objective of this research project is to investigate the possible impact of the partnership of Debswana and AA on the GRB through understanding the following objectives:

- To investigate why the GRB did not take the risk when given an opportunity by the Oppenheimer's to increase their stake in De Beers though the country's solid foundation is built on diamonds.
- To assess how the level of AA's 'vulnerability' to a 'take-over' will impact on Debswana thus affecting the success of the M&A.
- To assess the potential opportunities and risks associated with the acquisition of the Oppenheimer's De Beers shares by AA on Debswana.
- To make recommendations on how to incorporate the identified risks in mine plans for business sustainability or continuity.

1.9 Ethics, assumptions and delimitations of the study

When conducting this research it was necessary to ensure integrity of the research process as a whole. There was a need for balancing subjectivities that could provide accurate research accounts and act within the laws of Botswana. It was necessary to ensure the following:

- Confidentiality: the information about the company (case study) is used purely for academic reasons.
- Permission to conduct the research has been obtained from Debswana Jwaneng Mine: see the attached letter of approval (appendix A).

The study has placed the assumption that any impact of risks from the Debswana operations will have some impact on DTCB thus affecting the economy of GRB. The study was restricted to the

mining operations in order to assess Debswana's performance more meaningfully pre and post the acquisition of the De Beers shares by AA.

1.10 Report Structure

1.10.1 Chapter 1

This chapter begins by discussing the diamond mining industry and continues by looking at the research motivation. It then takes an in-depth look into the profiles of the companies that were involved in the merger and acquisition transaction namely Debswana, De Beers and Anglo American plc (AA). The purpose and context, along with the statement of the problem and research objectives are also found in this chapter.

1.10.2 Chapter 2

This chapter gives a theoretical background of mergers and acquisitions (M&A). It also cites the relevant case studies in the mining industry and also outside the mining industry to adopt any similarities. It also takes the different aspects that can lead to failure or success of mergers and acquisition. The risks identified between AA and De Beers are also discussed in this chapter.

1.10.3 Chapter 3

This chapter focuses on the research methodology of the study. It outlines the manner through which the research was conducted, and explains methods and procedures used to collect data for the study. The chapter also covers the sources of data for the study and issues on ensuring the validity, reliability and accuracy of information collected during the study are explained.

1.10.4 Chapter 4

This chapter presents the findings of empirical data that was collected as part of the current research. Data presentation is defined as an examination of information collected in order to investigate the intention of the research (Creswell, 2013). The current data presentation focuses on data that was collected through secondary sources relating to operations of Debswana.

1.10.5 Chapter 5

This chapter entails the summary of the entire project. It then states the recommendations for the two companies for a successful merger. It also highlights some of the limitations of this research project and recommendations for further research.

1.11 Chapter summary

The chapter began by highlighting the dynamism of the mining industry today and some stringent measures taken by companies to stay afloat. It further reflects on what the Oppenheimers have done by selling their shares thus compelling Debswana into partnership with AA, with their profiles highlighted as well. The chapter revealed the greater dependence on diamonds by the GRB for survival of its single commodity based economy. The next chapter will focus on the literature review of mergers and acquisitions with the efforts to understand the operation of an entity after such a transaction. It will further look at different financial ratios used in the measurement of a company in order to measure its success after the M&A transaction. It will also look at the different case studies which forms the basis of the research methodology was used.

2. LITERATURE REVIEW

2.1 Chapter overview

In the past two decades, cross-border mergers and acquisitions (M&A) have accounted for more than two fifths of foreign direct investment (FDI) in developed nations with African countries accounting for four fifths according to (UNCTAD, 2010) findings. In cross border M & A process, Bandick *et al*. (2010) stated that assets and operations of two firms which belong to two different countries are combined to establish a new legal entity. In the findings of recent literature conducted by Damijan *et al.* (2011) on cross-border acquisitions, the control of assets is transferred to a foreign firm with the local firm becoming an affiliate. Calipha *et al*. (2011) proved that the minority shareholding forms foreign interest of 10 to 49 % of a firm's stock with majority ownership foreign interest of 50–99 % or in an outright acquisition with foreign interest of 100 %. In this chapter, the researcher presents critical issues relating to the impact of acquisition of De Beers by AA forcing a merger between Debswana and AA. The empirical findings existing in literature on the impact of mergers were applied in this chapter.

2.2 Theoretical concepts

2.2.1 Mergers and acquisitions defined

Mergers and acquisitions are an important aspect in resource reallocation of a firm which Mboroto (2012) suggested mainly in response to exogenous factors outside the firm's control. In definitions by Kithitu *et al*. (2012), M&A form part of consolidations of the company. A merger is defined according to Kithitu *et al.* (2012), as a combination of two companies to form one new entity, while an acquisition is the buying of one company by another and in this strategy no new firm is formed. Saboo & Gopi (2009) described mergers as the amalgamation of two companies to form a new legal entity. In contrast to a merger, an acquisition involves the take-over of another company where one of the new companies takes over the other one and establishes as one legal entity. The process of mergers forms the restructuring of the company with the aim of a growth strategy, aiming to provide a positive value to the firms. The process seeks new opportunities arising in a given industry.

2.2.2 Classification of mergers

Mboroto (2012) outlined the classification of mergers based on the theory proposed by Bowman & Singh (1999). According to Bowman & Singh (1999), mergers are classified into three main categories namely portfolio mergers, financial mergers and organisational mergers. In portfolio mergers, there is a change in the asset matrix and in-line with business in terms of liquidation, spin-offs and divestures among others. A commonly accepted description of financial mergers includes changes in the capital structure, through recapitalization, debt or equity swaps among others. It also includes increasing rights issue or stock through Initial Public Offers (IPOs) with organisational mergers accounting for changes in the organisational set up, structure, hierarchy, chain of command and flow of authority, corporate governance, employment structure, (Mboroto, 2012).

2.2.3 Reasons behind mergers in the 21st century

Mergers and acquisitions have become a topical issue in the 21st century around the globe. They form part of critical strategies which firms adopted in the business world to remain more relevant and competitive. The rationale behind mergers as described by Mishra & Chandra (2010)is to create synergies so that the firm gains economies of scale, expand, diversify operations and become more competitive in the market structure. The essential argument outlined by Kithitu *et al*. (2012) pertaining to many recent theories of mergers revolves around cash flow, oligopolistic theories, revolution in information technology, synergy, financial strength, market expansion, revamping of production facilities, strategic purpose and cost reductions. This is in view of maximising value for shareholders' value, which is synonymous with profitability or a firm's performance.

2.2.3.1 Cash flow theory

Mergers allow managers to obtain cash flow requirements from existing shareholders by avoiding capital markets in the case of new capital requirements. Ismail *et al*. (2011) suggested that the avoidance of new equity or rights issue reduces the cost of borrowing on the capital market. Ullah *et al*. (2010) posited that firms maximise profits by focusing on one of two reasons namely cost reduction and profit maximisation strategies. In reducing the cost of equity or debt issue, the company spares from servicing a debt through repayment of principal capital

amount as well as interest payments. This contributes to financial performance due to the firm's profitability using the shareholder's investment (Ullah *et al*., 2010).

The new structure and management can be competent enough to bring about substantial change in a firm's operations thus increasing the firm's value. Calipha *et al*. (2011) argued that the change in organisational structure in response to a merger reflects management's long-term strategies in light of growth strategies for the firm. The growth strategies among others, as outlined by Ismail *et al*. (2011) include market take-over, industry take-over, concentration and recognition. However Saboo & Gopi (2009) argued that the risk of take-over from diverting cash-flow is high through mergers and acquisition.

2.2.3.2 Oligopolistic theory

The theory of oligopolistic markets has been discussed by Mboroto (2012) based on evidence for the formation of cartels or mergers. The steps by an organisation to undertake a merger may be a result based on understanding of oligopoly behaviours as an attempt to dominate the market (Chen *et al*., 2010).The merger of two or more firms reduces the market concentration ratio for the industry. The concentration is described according to (Stiebale & Reize, 2011) as a ratio which indicates the percent of market share held by firms in the industry with a high market concentration ratio signifying that the whole market share is controlled by few but large firms, known as oligopolies. These few large firms reap huge profits with a less competitive landscape which nears that of a monopoly. A low concentration ratio indicates that the industry has many rivals, none with a significant market share. The aim is to improve financial performance of firms in the picture and realise oligopolistic (Stiebale & Reize, 2011).

2.2.3.3 Returns to scale

The benefits of mergers are synergy creation which emanates from a whole instead of a part. The combination of two or more firms can create a positive incremental gain with the total synergy gain to shareholders being defined by the sum combination of the two shareholding value (Stiebale & Reize, 2011). This theory is supported by (Shuto, n.d.) who indicated that the benefits of two firms in a synergy are more than individual separate values. The benefits show the sum value of discounted future cash-flows which are greater than the sum of two separate firms (Mishra & Chandra, 2010).

The same size improves the economies of scale with average costs declining over a larger size. Ullah *et al*. (2010) suggested that larger firms operate more efficiently in several ways with implementation of specialisation than small firms. In support of this, (Calipha *et al*., 2011) suggested that through mergers firms reduce their overheads through sharing of common facilities and coordination of activities.

2.2.3.4 Revolution in information technology

The drive behind mergers involves the revolution in information technology that has assisted companies in adopting new changes in information processing and communication and hence improving corporate performance. Kithitu *et al*. (2012) mentioned that lower cost producers are the ones who can survive global competition, with cost reduction necessitating downsizing of staff and managers to improve productivity. Mboroto (2012) summarised the basic purpose of mergers and acquisition as the need to achieve faster corporate growth.

2.2.3.5 Synergy

Synergy can be defined as net incremental gains which come about as two or more companies form a single legal unit (Buckley *et al*., 2010). A positive synergy occurs when the value of company A which acquires company B, results in a net gain of company AB, than the sum of two separate firms A and B. The combined value of the two firms will provide a positive incremental cash flow, compared to the sum of individual companies. According to Buckley *et al*. (2010) if value is created when two companies combine then synergy ranges between 0.1 to 1, depending on the magnitude of value created. The more the value created, the more the synergy value moves towards 1. However, if no value is created when the two companies combine, then the synergy is zero (Buckley *et al*., 2010).

2.2.3.6 Financial strength

Mboroto (2012) stated that mergers improve the cash resources of a company and hence financial liquidity. The mergers may result in substantial asset value through the disposal of outdated and surplus assets for cash of the newly combined company. The merging firms can enhance the gearing capacity of the existing company by improving the borrowing strength and more asset backing. In addition, this also improves corporate tax payments for a loss making company acquired. Tax can also be reduced through utilisation of unused debt capacity. In

addition merged or acquired companies can reinvest surplus funds in the form of free cash flow in non-taxable acquisitions as an alternative to paying dividends or repurchasing stock.

2.2.3.7 Market expansion and strategy

Siehl *et al.* (2012) stated that mergers help to reduce or eliminate competition in a given industry. This enables the company to protect existing markets through providing new market outlets. It also leads to the enhancement of market power especially in situations where a single firm may acquire another as a way of increasing its market power or market share. In supporting such mergers, Chen *et al*. (2010) indicated that corporate performance can be enhanced by monopolising high prices and reduce competition. In addition, Allred *et al.* (2005) posited that firms may combine their products or services to gain a competitive advantage in a given market segment. Cost advantages can also come in the form of economies of scale, which may result in improved purchases leading to large discounts or ability to negotiate prices. This eventually leads to higher revenue collections.

2.2.3.8 Revamping of production facilities

Mergers can enhance cost advantages in the form of economies of scale through combining production facilities which results in optimum utilisation of resources (Siehl et al., 2012). According to the authors, standardisation of product specification leads into product improvement, mass production and expansion in markets which may lead to strengthening customer loyalty. The end result is reduction in cost, improved organisational competitiveness and hence increased market share. This results in improved production and technology which increase the competitiveness of the market structure (Siehl *et al*., 2012).

2.2.3.9 Strategic purpose

In mergers and acquisitions companies can achieve strategic objectives by taking advantage of various combinations such as vertical, horizontal, product expansion, market extensional or other specified unrelated objectives depending on the company. Vertical integration extends the scope and operations of an organisation to other activities within the same industry. According to (Stiebale & Reize, 2011)vertical integration is characterised by the expansion of the organisation into other parts of the industry value chain directly related to the design, production, distribution or marketing of its existing products and services. The primary objective of vertical integration is to strengthen the hold of the organisation on resources it deems critical to its competitive

advantage. Vertical integration can be achieved in two directions namely forward and backward directions.

Allred *et al*. (2005) stated that horizontal integration occurs when a company adds parallel products to the existing product line. The purpose of horizontal diversification is to expand market area and to cut down competition. This may be an attempt to take advantage of future or promising strategic advantages and enhance corporate performance (Allred *et al*., 2005).

2.2.3.10 Cost reductions

The merging of two or more firms can take advantage of size and improve operational efficiency. The cost reductions can come as a result of large production which leads to economies of scale as production levels increase (Chen *et al*., 2010). Nicholson & Simmons (2012) defined economies of scale as cost advantages emanating from large scale operations in which the cost per unit falls as production increases. In the case of mergers overheads fall as average fixed costs (AFC) are spread over large output hence reducing unit fixed costs.

2.3 Determinants of financial performance

The main goal for a commercial company is to maximise return in the form of profit. The activities of every company are therefore inclined toward the profit maximisation goal with every other goal following the grand goal. In mergers, the benefit of a merger can be explained by the financial performance using ratios by comparing the pre-merger performance and post-merger performance. Selcuk & Yilmaz (2011) outlined that there are two main measures of financial performance namely the stock market based approach and the accounting based approach.

2.3.1 Stock based approach

This approach uses the predictable financial gains or losses based on the security returns. In a stock market, one can assume that the market is efficient and every firm has access to market information. The stock valuation at the time of a merger reflects the benefit of an efficiently operating market, with changes in market valuation after merging of two or more companies reflecting an improvement or deterioration in financial performance (Selcuk & Yilmaz, 2011). However, Miller (2013) argued that it is not stock valuation in the form of positive movements that is favourable to the company, but rather negative movements which are not favourable to the

firm. The movements are explained by other factors such as positive market reaction to the merger leading to a positive stock movement, with no operational benefit on the merging companies.

2.3.2 Accounting based approach

The use of accounting based approach consists of using financial information to calculate financial ratios. Financial ratios measure the financial performance of a company over time using trend analysis, calculated as a percentage of change overtime (Selcuk & Yilmaz, 2011)(.

2.3.3 Financial ratios

The firm's performance is measured using a variety of ratios. Selcuk & Yilmaz (2011) stated that financial analysts make use of financial figures in order to assess the performance of business overtime. Mboroto (2012) argued that, absolute figures are not much useful in interpreting results more meaningfully, and hence to compare figures ratio analysis is the most informative method capable of analysing financial performance of a given business entity.

2.3.4 Profitability ratios

The objective of profitability ratios is to give a good understanding of how well the company utilised its resources in generating profit and shareholder value (Ismail *et al*., 2011). Profitability ratios include Return on Assets ratio, Return on Shareholders' Funds ratio, profit margin and Return on Capital Employed ratio (ROCE). The ratios would show how effective a company is at generating income from its given resources.

2.3.4.1 Net profit margin

The net profit margin ratio measures the average profit on sales (ReadyRatios, 2015). Net profit margin is commonly referred to as the companies "bottom-line" (MYSMP, 2011) The relationship between sales and expenses give the net profit margin. An increase in net profit margin indicates an increase in the firm's profitability, while a reduction in profit margin shows a decline in the firm's profitability. This also goes with gross profit margin, which accounts for the ratio of sales to gross profit (ReadyRatios, 2015). In order to ascertain the benefits of a merger, there is a need to compare the pre-merger net profit margin ratio and the post-merger net profit margin ratio. The profitability ratio is given by formula 2.1.

$$\textbf{Net profit margin} = \frac{Net\ Profit}{Sales} * 100 \qquad (formula\ 2.1)$$

The higher the percentage, the more profitable the firm is.

2.3.4.2 Return on equity (ROE)

ROE measures how much profit was generated by a company against the total amount of shareholder equity invested (Elliot *et al*, 2012). This indicates the expectations of shareholders in return for their investment. A high return on equity indicates that a business is capable of generating high cash returns and hence higher profit generation. The ROE of a company reflects how effective a firm is using the funds of the shareholders and the higher the ROE, the more effective the funds are being used. ROE is given by formula 2.2.

$$\textbf{Return on Equity} = \frac{Net\ income}{Total\ equity} * 100 \qquad (formula\ 2.2)$$

The higher the ratio, the more efficient equity employed is used.

2.3.4.3 Return on asset (ROA)

The ROA of a company forms a profitability ratio which measures current resources utilisation of a firm (Ismail *et al*., 2011). The firm's ability to properly manage the assets at their disposal indicates the efficiency with which the company can use resources to generate income. An improvement on ROA indicates the company is efficiently using its resources to generate more cash. ROA is given by formula 2.3.

$$\textbf{Return on assets} = \frac{Net\ Income}{Average\ assets} * 100 \qquad (formula\ 2.3)$$

The higher the ratio, the more income generated from the firm's assets.

2.3.4.4 Return on capital employed (ROCE)

ROCE measures the profitability of the firm. It is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed. Return on Capital Employed (ROCE) is given by the formula 2.4:

$$\boldsymbol{ROCE} = \frac{Earnings\ before\ Interest\ and\ Tax\ (EBIT)}{Capital\ employed} \qquad (formula\ 2.4)$$

2.3.5 Management efficiency

Management efficiency is one of the key internal factors that determine a company's financial performance. The management efficiency is represented by asset growth and earnings growth rate. The operational efficiency indicates a qualitative evaluation of management systems, organisational discipline, control systems, and quality of staff among others. The ability of a firm to efficiently manage resources results in profit maximisation and reduction in operating costs. This efficiency is measured by operating profit in which a higher operating profit shows an improvement in operational efficiency and hence more income generation. There is a negative relationship between operating expenses and profitability (Nissim & Penman, 2003). Management efficiency makes use of inventory turnover, such that the higher the turnover ratio, the more efficient the company. The return turnover ratio is given by formula 2.5.

$$\boldsymbol{Inventory\ turnover} = \frac{Cost\ of\ goods}{Average\ Stock} \qquad (formula\ 2.5)$$

The ratio measures the rate at which stock is being converted into sales. The higher the turnover ratio, the more profitable the firm is.

2.3.6 Liquidity management

Liquidity ratios determine the company's level of performance and hence profitability. Liquidity is defined according to Nissim & Penman (2003)as the ability of the company to meet its short term financial obligations when they are due. Mishra & Chandra (2010)argued that adequate levels of liquidity are positively related with bank profitability. The organisation's liquidity position will examine the company's cash flow and cash and cash equivalents in relation to maturing financial obligations. Liquidity can be calculated using the current ratio or quick ratio.

2.3.6.1 Current Ratio

The current ratio measures the firm's ability to remain solvent in the short-term and meet its current debt obligation. According to Elliott *et al*. (2012) a current ratio of 2:1 or greater is considered to be reasonable with any ratio below the standard ratio considered not safe for a company.The current ratio is given by formula 2.6.

$$\boldsymbol{Current\ ratio} = \frac{Current\ assets}{Current\ liabilities} * 100 \qquad (formula\ 2.6)$$

2.3.6.2 Quick ratio

The quick ratio indicates the firm's ability to match near cash to the current liabilities that have to be met in the short-term. Inventory is not accounted as the ratio is a more conservative measure of liquidity. According to Elliott *et al*. (2012) a ratio of 1:1 or better indicates that a company can meet its short-term obligations without much difficulty. The quick ratio is given by the following Formula 2.7.

$$Quick\ ratio = \left[\frac{(Current\ assets - inventories)}{Current\ Liabilities}\right] * 100 \qquad (formula\ 2.7)$$

2.3.7 External factors/ macroeconomic

The macroeconomic factors relating to the general economy affect the firm's performance (Mboroto, 2012). These factors include the major factors such as macro-economic policy stability, inflation rate, interest rate and political instability which contribute to the economic growth of a country and affect the firm's performance. High inflation negatively impacts on a firm's performance, with high interest rates discouraging firms from borrowing for expansion due to a high cost of capital. Political stability also contributes to a firm's performance .Bandick *et al*. (2010) highlighted that during an economic boom, credit is high due to high promising business prospects as compared to recessionary periods where contraction in demand affects the firm's performance. The relationship between a company's performance and recession is said to be negative with a positive relationship in economic boom.

2.4 Pre-merger and post-merger reaction

2.4.1 Stock market reaction to merger announcements

According to Hirsch (2013) mergers reflect reallocation of resources within and across industries. Barrett (2012) posited that mergers increase the growth of the firm by growing its size and hence creating value for the firm. The measure of the firm's value resulting from mergers shows the incremental value which can be distributed among the shareholders.

Nicholson & Simmons (2012) emphasised the most reliable evidence of value creation for shareholders from mergers is the reaction of the stock market from the merger announcement. The reaction acts as a barometer to measure the value created or destroyed from the announcement of the merger. Peyer & Mercier (2012)stated that in an efficient capital market, the firm's stock prices quickly adjust to merger announcements by incorporating expected value changes in the market. Mishra & Chandra (2010) noted that there is a window period of three days in an efficient market surrounding the merger announcement. The window reaction period consists of one day before the announcement, the day of the announcement and the day after the announcement. From a longer window period view, the period may start several days before the announcement, and mostly end just close to the merger. There are expected high returns for both the acquirer and the targeted company with the abnormal returns going for more than three days before the merger (Jianyu *et al*., 2009).

2.4.2 Long-term abnormal returns

Many traditional findings indicate that the announcement of stock price directly reacts with public information hence leading to effects on the returns of merging companies. Recent events in long-term studies for a period covering three to five years however have some doubts on short-term window interpretation view findings. Some authors indicate that investors fail to systematically assess the impact of merger announcement for those attempting to measure wealth effect. Some authors who include Ismail *et al*. (2011) are of the view that there is a negative long-term effect on gains from acquisitions with the positive reaction combined on the announcement of the merger reaction, leading to negative wealth gain in the long-run.

2.4.3 Pre and post-merger profitability

A firm's performance after an M&A transaction attempts to identify the sources of competitive advantage which leads to positive gains after the announcement of a merger. Kithitu *et al*. (2012) argued that when a firm creates mergers for the shareholders, this must be reflected in positive cash flow, mainly reflected in profitability, cash flow statement, and liquidity ratios. Positive results on accounting ratios indicate an improvement in the company's performance resulting from the merger.

However, Barrett (2012) argued that using the same firm's pre-merger and post-merger may lead to wrong results. The author continued to indicate that the merger transactions can result from industrial shocks that change the value of the firm in the industry. Peyer & Mercier, (2012) concurred that there is a common shock that induces merger activity at a particular point in time.

Ismail *et al.* (2011) indicated that normal performance, measured on the basis of differences between the combined firm's operating margin and the industry results in combined target and acquirer operating performance is strong relative to their industry peers prior to the merger, and improves slightly subsequent to the merger transaction.

2.4.4 The BASE model

Beniesh *et al*. (2011) considered a continuous-time model where each firm engages in production and market competition. The model, known as the BASE model, illustrates the competitive advantage of mergers as compared to two companies operating separately. In developing the model, two companies incumbent are endowed with resources of equal amount of capital, K and labour and in which there are no barriers to entry or exit in the given industry. In this model, the amount of capital is fixed with labour as the only variable; such that the separate firms can costless adjust their labour to produce more quantity (Beniesh *et al*., 2011).

The benefits of a merger from the given companies using a base-case model are that the two companies can coordinate their product strategies. The two merged companies have an advantage of higher returns emanating from the fact that they lower their costs of production, hence avoiding potential entrants from joining the industry. This quickly improves the firm's returns due to lack of competition or reduced competition. When taking this into consideration it

is clear that the profits from the two firms tends to be higher when they have merged as compared to them being separate, all other things held constant. However, some authors like (Bargeron, 2013)stated that merging brings about more regulation to the firms resulting in higher costs of operations. The government and pressure groups will focus more on merging firms to deter the behaviour of monopolies. As a result, firms are better off not merging if staying separately can reduce operational costs.

2.5 Empirical review

Though the companies under review are mining companies, valuable lessons can be drawn from other industries that have undergone the M&A transactions. Empirical studies on corporate mergers and acquisitions in large organisations focus on effects of M&A on the firm performance. According to (Farchy, 2012) M&A is the common method in strategic management in a corporation to improve the firm's performance. Farchy (2012) used total productivity as a proxy for a firm's efficiency with profitability ratios such as, return on equity, return on assets, sales ratios and the employment index of the firm's growth rate.

The study has shown there was insignificant decline in productivity and profitability with negative effects on mergers growth with a downsizing effect in the workforce. Based on the Farchy (2012)'s findings, it was concluded that M&A have an insignificant contribution in financial performance and unfavourable effects on the acquiring company in the long-term financial performance. The following case studies will illustrate the example of a merger in the non-mining sector and an example of a merger in the mining sector.

2.5.1 Mergers in the non-mining sector: Merger between AOL and Times Warner

The merger between the American online (AOL) and Times Warner has been one of the historic mergers in America. The AOL, decided to merge with Times Warner at a value of US$350 billion, in 2001. Times Warner was one of the biggest American multi-media corporations with its headquarters in New York City and a customer base of 13 million at the time of the merger. The company was the world's third largest television network and film entertainment in terms of revenue (Weissman, 2014).

On the other hand, AOL was known as the top internet service provider with an estimated subscription of 20 million customers (Hansel, 2001).The combined merger between the top internet provider and top media service conglomerate represented an unprecedented powerhouse which analysts stressed as unbeatable. This included Times Warner shareholders receiving 1.5 shares of the new company for every share of Times Warner stock they owned. AOL shareholders also received one share of the new company for every share for AOL they held. The new merger was owned 55 percent by AOL with the other 45 percent by Times Warner with their combination having boosted a market capitalisation of US$350 billion and annual revenue from US$330 billion (Arango, 2010).

However, the merger between AOL and Times Warner failed with the separate companies worth one seventh of their pre-merger value. According to McGrath (2015) there were multiple reasons leading to the failure of the two companies over the years. The first reason was the inability by the two merging companies prior to their merger to take into account the cultures of the combined companies which later became a problem as the two companies had two different cultures. AOL was aggressive in its strategy with Times Warner taking a soft approach to the market. This led to the AOL people overriding Times Warner culture because of their numbers with mutual disrespect according to Arango (2010).

The emergence of recession affected the advertising industry with AOL forced to write-off its goodwill, worth nearly US$99 billion losing Wall Street Journal stock subscribers from US$226 billion to US$20 billion. In addition, the changes in the industrial structure affected the merger as Times Warner and AOL focused on the merger at the expense of the market changes. AOL was indeed the king of the dial-up Internet world, but that world was rapidly being supplanted by always-on, much faster broadband. At the time of the merger, half the country had Internet access, yes, but only 3% had broadband. AOL's business model – originally based on payment for usage and subsequently for a monthly subscription – was about to implode. The eventual divorce of the two businesses was inevitable (McGrath, 2015).

Therefore, the failure of AOL and Times Warner was mainly due to small things which the combined companies did not take into account (McGrath, 2015). This led to the eventual break-

up of the merger. The following summary highlights major reasons for the failure of the AOL and Times Warner merger (McGrath, 2015):

- The untested assumptions were taken as facts during the pre-merger sessions; and
- The companies did not account on that, a merger is highly expensive and a few opportunities exist for inexpensive, low-commitment testing.

The leaders of the two companies were convinced they had the answer and were not willing to change course; there was huge up-front investment, which could not take a sequential flow of resources.

2.5.2 Mergers in the mining industry: GlencoreXstrata

Glencore and Xstrata were, until May 2013, two of the largest commodities companies in the world. Xstrata specialised in mining, while Glencore operated mines but was also a major commodities trader (London Mining Network, 2013). GlencoreXstrata is an Anglo-Swiss multinational commodity trading and mining company headquartered in Baar, Switzerland and registered in Saint Helier, Jersey (Aversano & Ritsatos, 2012). The merger of Glencore with Xstrata shows the combined search for value creation in the mining industry to pursue expansion and internationalisation (Aversano & Ritsatos, 2012).

The merger between the two companies was best explained by Hymers theory of internationalisation, and shows the biggest merger in resource commodities firms. These companies were praised with their business action. The combined forces of Glencore and Xstrata were viewed as the best business transaction resembling the best the actions which have been outlined by Brinded (2013). The major reason from the investigation indicated increase in size and institutional monitoring for big companies, which have led even to underpricing of stock on the financial market. The institutional monitoring is included in the international regulation of resources, the presence of agencies which monitor the performance and resource exploitation and tend to pressure for more resource conservation. The new capital structure of GlencoreXstrata and continuous presence of controls by institutional investors has improved the level of commitment to corporate governance issues thus improving transparency. The company continues its expansion in markets which include, the Democratic Republic of Congo which has

copper, Columbia which has coal, Equatorial Guinea which has oil and natural gas, Kazakhstan where there is gold (Aversano & Ritsatos, 2012)

2.5.2.1 Pre and post-merger market position

Figure 2-1 demonstrates where Glencore and Xstrata were before the merger transaction.

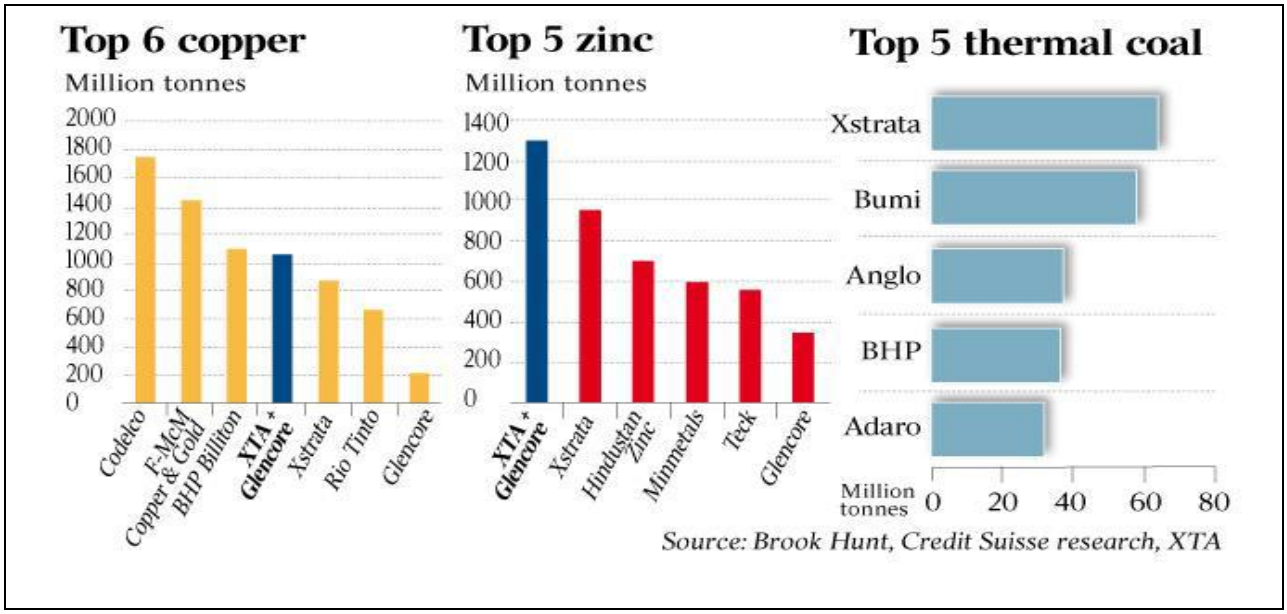


Figure 2-1: Market performance of GlencoreXstrata pre and post-merger in terms of production output (Source: **Aversano & Ritsatos (2012)**)

The merger between the two mining companies shows an improvement in the market rating based on performance for zinc and copper. In copper mining, a great improvement was noticed after the merger as GlencoreXstrata found themselves in position 4. Prior to the merger, results from the top six copper producers show Xstrata on position 4 while Glencore was in position 6. The post-merger performance (bar chart in blue colour) sets the two companies on position 4, with higher level of copper output.

The pre-merger zinc production indicates Xstrata, leading the industry with Glencore's position on number 5, in the industry. The merger of the two companies shows a combined increase in output, leading to position one (bar chart with blue colour) with improved output in the industry. This is despite the increase on institutional regulation for the two companies after the merger (Brinded, 2013).

2.5.2.2 Financial performance on the stock market

The Glencore's IPO in 2011 indicated the takeover of Xstrata, in the form of vertical integration resulting in combining the two mining companies under one management mining, manufacturing and trading of scarce resources in the global market. Figure 2-2 demonstrates GlencoreXstrata market capitalisation trends.

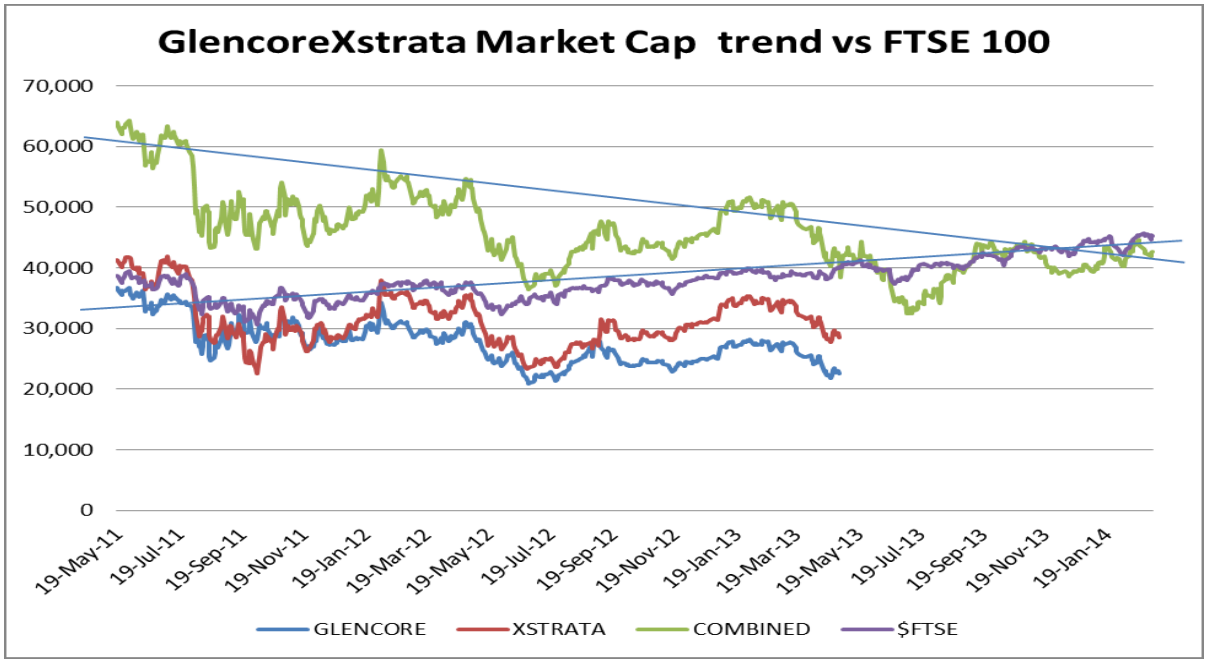


Figure 2-2: Financial performance of Glencore Xstrata in the stock market (Source: Aversano & Ritsatos (2012)

The GlencoreXstrata market capitalisation resulted in a decrease in nominal terms with the company capitalisation trend moving in the opposite direction as compared to FTSE 100, (see Figure 2-2). This was mainly through information hypothesis; with the majority of the investors not welcoming GlencoreXstrata's overall behaviour, for more than three years after the intended merger was announced. Farchy (2012) argued that, when the two companies operated separately, they had less scrutiny and some degree of freedom. This gave them leverage since they could operate within the legal framework and semi-legal framework without any scrutiny.

The financial markets were not open to the trading of the two separate companies even in the face of questionable business practices which brought massive returns (Miller, 2013). The combination of these two companies put them in the spotlight with close monitoring on their activities (Aversano & Ritsatos, 2012). Lessons of this merger will be used to analyse the

possible outcomes between AA and Debswana. They do have similarities as they operate in relatively similar market conditions.

2.5.3 Merger between Anglo American plc and Debswana

The 40% acquisition of Oppenheimer's shares by AA for US$5.1 billion indicates one of the acquisition incremental interests, which adds to AA's 45% current holdings up to 85%. This acquisition led to a merger between the GRB and AA. This relationship is fostered by joint interest which De Beers was holding at the time of concluding the deal with the partner, the GRB.

Under the terms of the existing shareholders' agreement, Botswana has pre-emption rights in respect of the CHL Group's interest in De Beers, enabling it to participate in the transaction and to increase its interest in De Beers, on a pro rata basis, to up to 25 percent. In the event that Botswana exercises its preemption rights in full, AA, under the proposed transaction, would acquire an incremental 30 percent interest in De Beers, taking its total interest to 75 percent, and the consideration payable by AA to the CHL Group would be reduced proportionately (DeMarco, 2011). The GRB declined to take up its pre-emptive rights to acquire additional shareholding in De Beers (DeMarco, 2011) thus remaining with a shareholding of only 15% in De Beers.

The reason behind this decision was primarily the cost of the 10% which was US$ 1.275 billion which was equivalent to 10% (P9.8billion) of the country's GDP (Dipheko, 2012). Thus Botswana could not afford to spend the amount whilst the country is still in deficit and still trying to rebuild their budget. The other reason was the inability to have the 'active' shareholding capacity in which the GRB would have a shortfall of 1% to make 26% required. AA would have still remained the majority shareholder given an additional 45% shareholding to its current 40% at the time of the deal, improving its stake to 85%. This cumulatively would have added-up to 42.5% of AA stake in Debswana with the 57.5% going to the GRB under the 50:50 shareholdings between De Beers and the GRB.

DeMarco (2011) reported that the shareholders' agreement was between AA, which has a primary listing on the London Stock Exchange (LSE) and a secondary listing on the

Johannesburg Securities Exchange (JSE), Churchill Holdings Limited (CHL) and the GRB. AA is much knowledgeable about mining and De Beers about the unique nature of diamonds. AA had a market capitalisation of approximately £31.2 billion as at 23 December 2011, making it the 15th largest company with a primary listing on the London Stock Exchange (Anglo American plc, 2015).

The agreement insists that AA's technical, operational and exploration expertise plus financial resources, together with De Beers' leadership will enhance the new company's position.

(AngloAmerican plc, 2014) reported that the De Beers-Debswana venture attracted the attention of the Minister of Minerals, Energy, and Water Resources, Dr. Ponatshego H Kedikilwe, who expressed on behalf of the Republic of Botswana that: "The diamond industry is a major contributor to our economy in Botswana. We are grateful to the Oppenheimer family for their vision and contribution to the diamond industry and to Botswana and we will proudly take forward that legacy with AA. We look forward to building on the excellent relationship we have with AA, both through our ownership of De Beers and through the Debswana joint venture."

The purchase of an incremental interest in De Beers is fully aligned with the AA strategic priorities which currently own 40% of world output, and is a major producer of diamonds, copper, nickel, iron ore and metallurgical and thermal coal. The transaction is expected to be accretive to underlying earnings before depreciation and amortisation on fair value adjustments in the year of acquisition. The transaction does not alter the existing arrangements for the management of De Beers (The Guardian, 2014).

2.5.3.1 Anglo American plc

Anglo American plc is one of the world's largest mining companies, is headquartered in the UK and listed on the London's LSE and Johannesburg Securities Exchange (JSE). It was founded in 1917 by Sir Ernest Oppenheimer. AA's portfolio of mining businesses spans bulk commodities – iron ore and manganese, metallurgical coal and thermal coal; base metals – copper and nickel; and precious metals and minerals – in which it is a global leader in both platinum and diamonds. AA is committed to the highest standards of safety and responsibility across all its businesses and geographies and to making a sustainable difference in the development of the communities

around its operations. The company's mining operations and extensive pipeline of growth projects are located in southern Africa, South America, Australia, North America and Asia (Anglo American plc, 2015).

AA is currently planning on exiting six commodities and focus only on three which are diamonds, platinum and copper. This will leave only 16 operations by 2016 from 68 operations in 2014 (Wilson, 2016). This is highly influenced by the need to AA to pay down the net debt of US$12.9bn which has threatened to swamp the group because of its ability to repay borrowings through earnings has been eroded by plummeting commodity prices (Wilson, 2016).

2.5.3.2 De Beers

De Beers Consolidated mines were founded in 1888. It is the world's leading Diamond Company with unrivalled expertise in the exploration, mining and marketing of diamonds. Together with its joint venture partners, De Beers operates in more than 20 countries employing more than 16,000 people, with mining operations across Botswana, Namibia, South Africa and Canada. As at 30 June 2011, De Beers had gross assets of US$8.2 billion and reported earnings before interest and tax of US$1.2 billion for the six months to June 2011. On the 30 June 2011 at the time of merger, it had current assets of US$10.6 billion with a profit before interest and tax of US$1.125 billion. As part of De Beers' operating philosophy, the people of De Beers are committed to living up to diamonds by making a lasting contribution to the communities in which they live and work. In the countries which De Beers operates profitably, it helps governments achieve their aspirations of turning natural resources into shared national wealth. De Beers encourages sustainable working to ensure long-term positive development for Africa, and returns more than US$3.0 billion to the continent every year (De Beers Group of Companies, 2015).

2.5.3.3 Churchill Holdings Limited (CHL)

The CHL group holds a 40% interest in De Beers (including certain shareholder loans which as at 31 October 2011 amounted to US$265 million). Central Management Services Limited ("CMSL"), a subsidiary of CHL, was appointed under a management contract dated January 2002 ("the Management Contract") to assist in the appointment of directors, senior executives

and management. Under the management contract, CMSL also contributes to the strategic development of De Beers and to general marketing initiatives and relationships with key customers and suppliers (Anglo American plc, 2011). The CHL group is ultimately controlled, through intermediary companies, by trusts (the "Oppenheimer Trusts") of which Mr. N F Oppenheimer is a potential discretionary beneficiary. The Oppenheimer Trusts also have an indirect interest, through E. Oppenheimer & Son International Limited ("EOSIL"), in 25.2 million ordinary shares of AA. In accordance with the Listing Rules, EOSIL undertook to procure that such shares would not vote on the resolution to be proposed at the General Meeting of AA to be convened for the purposes of approving the transaction.

The acquisition was implemented, subject to obtaining the required approval of AA shareholders. In addition to obtaining the necessary regulatory and government approvals and required third party consents, by the CHL Group offering all of the shares and existing shareholder loans of the CHL Group to AA and their existing shareholdings in De Beers, for an aggregate consideration of US$5.1 billion (Anglo American plc, 2011). AA agreed, subject to such shareholder approval and confirmatory due diligence and subject to obtaining necessary regulatory and government approvals and required third party consents, to accept such offer when made in respect of all of such interests.

The US$5.1 billion aggregate consideration for the CHL Group's interest in De Beers was subject to increase by an amount equivalent to interest at a rate of 3.5% per annum from 4 November 2011 to the closing of the transaction and decrease by reference to any dividends or loan principal or interest received by the CHL Group prior to closing (Anglo American plc, 2011).

2.5.3.4 Risk Factors and analysis for the Anglo American plc-Debswana merger

The acquisition of De Beers' shares by AA leading to the merger between AA and Debswana has implications in terms of risk and sustainability of the joint venture. A risk is defined according to Arthur *et al.* (2008) as a chance of a perceived outcome. The merger between AA and Debswana poses a significant amount of risk based on the separate backgrounds of the companies involved.

AA has vast experience in mining of mostly other minerals with little experience in the mining of diamonds. The company has much experience, however in the mining sector and carries its experience based on other minerals other than diamonds. On the other hand, Debswana has much experience in the mining of diamonds with no experience in the mining of other minerals and has recently added coal mining to its portfolio. The merger between the two mining companies brings about a collusion of an experienced player in diamond mining and a diversified mining partner. This will therefore lead to more of the learning period which can result in a prolonged learning curve based on the AA's ability to gain an insight into the diamond mining operations. The learning curve could have a negative impact on the profitability of the company through mistakes or more time taken to get AA rise to the current diamond mining standards.

The other risk pertaining to the merger emanates from the listings of the shares of AA. Debswana is currently and historically not listed on any the public stock exchange, with the majority of the shares being privately traded shares, within the shareholding group. However AA has a primary listing on LSE with a secondary listing on JSE. The listing of the AA comes with a risk of trading its shares on the public stock exchange. This implies that 42.5% of Debswana currently held by AA can be in the public domain, which is prone to takeover by any major shareholder, depending on the company's policy. The risk may bring adverse effects to Debswana which can lead to unfavourable results.

2.6 Chapter summary

Chapter two outlined the literature covering determinants acquisitions and mergers of different companies. It was important to adopt the mergers and acquisitions methods as prescribed in literature findings. This was followed by the firm's performance both internal and external factors beyond the firms control in relation to the research study. The guidelines on the process of measuring financial performance using stock market and financial ratios were discussed. In addition to this, empirical evidence based on factors determining firm's performance before and after acquisition or merger were also discussed, with further action of aligning determinants to the literature findings. The next chapter is Chapter 3, which outlines the research methodology of the research study.

3. RESEARCH METHODOLOGY

3.1 Chapter overview

This chapter focuses on the research methodology of the study. It outlines the manner through which the research was conducted, and explains methods and procedures used to collect data for the study. The chapter also covers the sources of data for the study and issues on ensuring the validity, reliability and accuracy of information collected during the study are explained.

3.2 Rationale for the methodology

Kumar (2012) stated that the research methodology is a body of knowledge that enables a researcher to explain and analyze methods, indicating their limitation and resources, identifying their presuppositions, consequences and research advances. The rationale for the current research is to underpin the type of questions that have to be addressed and the methods of collecting the data. Therefore, the research methodology is important as it appropriates between research paradigm, type of data and collection methods which have a significant implication upon research findings.

3.3 Research strategy

In empirical research, Saunders *et al*. (2012) outlined two most dominant research strategies namely a case study research and a large-scale research. Each of these methodologies has its own adoptions in terms of research and data collection and analysis techniques. The focus of the research will be on the case study methodology.

3.3.1 Case study research design

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context especially when the boundaries between phenomenon and context are not clearly evident. Saunders *et al*. (2012) stated that a case study involves a detailed investigation of phenomena where the aim is to understand how behaviour and/or processes are influenced by and influence context, and where context is deliberately part of the design.

For this study the researcher used Debswana as a case study. However, data collection covered all relevant sources such as newspaper articles, internet and journals.

3.4 Research approach

According to Edwards & Weller (2012) a research approach varies depending on what is being researched. The author further stated that a scientific method would be befitting for a scientific project while a social policy would require a survey based on social perception. There are two types of research approaches, namely a deductive approach and an inductive approach. The focus of this research will be on the inductive approach because of the real life case study being analysed.

3.4.1 Inductive approach

Hames (2013) stated that an inductive research focuses more on the use of observed data and established facts to support a theory or a hypothesis. This approach supports subjective reasoning with the help of real life cases (Kumar, 2012). Saunders *et al*. (2012) linked the inductive approach with interpretivism philosophy which characterises human beings as capable of interpreting their surroundings as opposed to being observers of what happens around them.

As the main objective is to assess the effects of a merger between AA and Debswana, the researcher found it convenient to adopt an inductive approach. According to Saunders, *et al*. (2012) the inductive approach can be either quantitative or qualitative or a mixture of quantitative and qualitative approaches.

3.5 Qualitative and quantitative research approaches

Research design includes three approaches which are qualitative research approach, quantitative research and mixed approaches. Saunders *et al.* (2012) described a quantitative research approach as a method which uses statistical models to analyse collected data. Qualitative analysis uses scientific methods to analyse collected data. Saunders *et al.* (2012) further added that qualitative research is based on people's opinions, attitude and experiences and generates descriptive conversations as opposed to giving numerical data. A mixed approach is a combination of both a quantitative and qualitative approach. In this study the researcher adopted a mixed approach.

3.5.1 Mixed method research

The concept of mixed research approach is not new, but originated way back in the 1950s when Campel and Fiske used multiple methods to study the validity of psychologist traits, and since

then more researchers have been encouraged to use multiple methods to collect data (Creswell, 2013). The approach is a 'concurrent mixed methods' in which both the qualitative and quantitative data was combined by the researcher to provide a comprehensive analysis of the research problem (Creswell, 2013). According to Hames (2013) the methods also complement each other and neutralize or cancel the biases of each method. With this approach, statistical information and personal views provide more insight into the subject topic hence enhancing the research information. This study chose to use mixed methods to collect data, in order to look at the same issue from different perspectives. This approach also helped the researcher to examine the circumstances extensively, enhance data collection, analysis and interpretation of data and to reach an informed perspective on the research problem. The mixed method also enabled the researcher to triangulate information collected from secondary sources such as journals, internet, and newspaper articles.

3.5.2 Qualitative research

Qualitative research is a means for discovering and understanding individuals or groups of individuals attributed to a social or human problem (Crowe *et al*., 2011). According to Creswell (2013), this type of research is a form of investigation in which the researchers have to apply their minds and interpret what they see, hear and understand and draw a conclusion on the research problem. The researcher collects various forms of data such as observations and documents, analyses them and makes good judgment of such data (Creswell, 2013). Denzin & Lincoln (2011) explains that the qualitative researcher is concerned with understanding, naturalistic observation, and the subjective exploration of reality from the viewpoint of an insider. The approach will be useful to explore the effects of a merger using secondary data collected by analysing data that generates non-numerical outcomes.

3.5.3 Quantitative research

Creswell (2013) described the quantitative research as one in which the researcher uses strategies of investigation such as experiments and surveys, and collects statistical data. The quantitative approach was done through the use of financial statements covering pre-merger performance and post-merger performance of Debswana.

3.6 Research design

A research design provides an overall guidance for the collection and analysis of data for a study (Morse, 2011). It details out what strategies will be used for data collection and from which source it will be collected as well as the methods of collection. From the above statement this study's research design was important research to guide in decisions regarding sampling procedures, sources and procedures for data collection as well as the plan for analysing and interpreting the collected data. A research design can be grouped into two approaches, namely a causual-comparative design and an explanatory design which was used in this research study.

3.6.1 Exploratory research design

Exploratory research design is conducted to clarify and define the major cause of the problem (Yin, 2012). According to Barret et al. (2011) an explanatory research design helps the researcher to have a better understanding of the dimensions of a problem and to aid analysis. A primary objective of explanatory research design is to provide insight information of the problem, Barret et al. (2011). The researcher adopted an explanatory research design with the view to determine the resulting outcome of the merger between AA and Debswana and therefore established improvements or effects of the merger process.

3.7 Information gathering

Morse (2011) defined data as recorded information that aims to represent facts. Information gathering refers to a process of collecting data that is relevant to a particular case study (Yin, 2012). In this research analysis, information gathering was used to obtain data that is relevant to the Debswana case study. The main purpose for information gathering is to provide information relating to the financial position, financial performance and non-financial information prior to the merger and after merger of Debswana with AA. Secondary sources were used in the data gathering of this research study.

3.7.1 Secondary source data

Secondary source data relates to information collected for a purpose other than the problem at hand. The data comes from a source other than the one in which it was originally collected for. Secondary data is available either within or outside an organisation. One can get both internal and external secondary data (Flyvbjerg, 2011).

However, Morse (2011) warned that, secondary data is an edited primary source data, and therefore the reliability of the information can be questioned because it represents someone's thinking so it can be biased. Examples of secondary sources can be books, newspaper articles, magazines, encyclopaedias and online sources. In order to minimise disadvantages of out-dated secondary data, researchers are advised to use recent secondary sources, which have been published most recently because they reflect the current happenings in the business environment. Methods used in information gathering of secondary information are described in the next sections.

3.7.1.1 Library research

Library research is one of the most popular methods used by researchers in gathering information because data sources are easily accessible. In the British Library and University of Botswana Library, there were a lot of books and journals, providing the researcher with relevant knowledge and models applicable to the research. Furthermore, electronic resources from the University of Botswana database provided Debswana information which assisted in conducting the research.

3.7.1.2 Online access

The internet is defined as a global network of interconnected networks. The internet carries documents, messages, programs and data files that contain educative information. The internet makes information accessible at any point in time and anywhere in the world as long as one is connected. The internet provides useful information through online access (Morse, 2011). This study used the internet to get much needed information about the merger between AA and Debswana.

3.7.1.3 Newspapers

A newspaper conveys information and opinions about current event and news. It is the best way to collect important and latest information regarding to the finance and operation of Debswana based on pre and post-merger results.

3.7.1.4 Books

Academic books are an important source of information to a researcher. In this case, the researcher can adopt financial accounting text books and other books which provide a financial background and knowledge in applying ratio calculations (Jasper *et al*., 2013).

In this research analysis, the researcher focused on secondary information because of its availability on internet, in newspapers and magazines which make it easier to gather compared to primary information which is more costly and time consuming to gather. The information mostly used was from the internet, websites, books and newspapers. There is a variety of information available on the internet which is made available to everyone with access to internet. The researcher was careful in gathering what was relevant to the case study.

3.7.1.5 Literature review

In-depth analysis of media reports related to the subject was done to amass more information from both printed and online sources. Different newspaper articles, books, journals, and the internet were consulted to collate all relevant information that could contribute to this research. These sources are referred to as "mass media" (Creswell, 2013). It was also apparent that during literature review that the research study was the first of its kind in Botswana. Furthermore books and journals on the same topic were hard to find in the country. The researcher therefore was more dependent on relevant information obtained from the internet and Debswana intranet.

3.8 Data analysis

After collecting all related data from secondary sources and literature review, information was collated, analysed, interpreted and used to make conclusions of this study. It is also important at this stage for the researcher to search through the data and challenge any understandings to find possible alternative explanations (Creswell, 2013). The data collected was interpreted based on the developments currently taking place since the merger between AA and Debswana.

3.9 Validity, reliability and accuracy of data collected

Validity in a study includes among others the correctness and appropriateness of the data collected and analysis used in the research (Mandal, 2013). Validity requires that all the measurements used in the study must be acceptable. Validity also checks whether the research findings are exactly about what they come out to be about (Mandal, 2013).

Hames (2013) explained that validity in a qualitative research does not hold the same implication as it does in quantitative research, nor is it a companion of reliability. Validity in qualitative research checks the accuracy of the findings by employing qualitative assurance procedures

(Hallberg, 2013). Validity in a quantitative research indicates that the researcher's approach draws meaningful and useful inference from scores on particular instruments (Creswell, 2013). There are several threats to validity as described by Creswell (2013) which raise questions about the ability of the researcher to make conclusions on whether the intervention affects an outcome and not some other factors. These threats according to Creswell (2013) may either be 'internal validity threats' such as history or 'external validity threats' such as interaction of selection and treatment.

Reliability on the other hand refers to the degree to which consistent findings are achieved by the researcher through data collection techniques and procedures used (Saunders *et al*., 2012). Crowe *et al.* (2011) explained that reliability can be measured by posing the following three questions:

a) Will the measures yield the same results on other occasions?

b) Will similar observations be reached by other observers?

c) Is there transparency in how sense was made from the raw data?

3.10 Chapter summary

This chapter provided a clear picture of how the research was conducted. It outlined the methodology used to address the aims of the study. Issues concerning the research approach, research design adopted, data collection methods and data analysis were discussed at length. The chapter also addressed issues relating to data reliability and data validity methods to ensure accuracy of collected information. Every effort was made to ensure the information collected for the research project was reliable and accurate while maintaining all ethical considerations. The next chapter focuses on results and discussions pertaining to the pre-merger and post-merger performance of Debswana.

4. RESULTS AND DISCUSSIONS

4.1 Introduction

Chapter four presents the findings of empirical data that was collected as part of the current research. Data presentation is defined as an examination of information collected in order to investigate the intention of the research (Creswell, 2013). The current data presentation focuses on data that was collected through secondary sources relating to operations of Debswana. The information was largely from annual and bi-annual reports, shareholders reports, journals, financial statements and newspaper articles among other sources which meet the needs of the research requirements.

4.2 Data presentation

4.2.1 Debswana performance

Debswana has made significant progress in a three year strategy that was launched in 2011 called Debswana High Performance Organisation by 2013 (HPO 2013). According to an IEA (2014) report, there has been an improvement in operating efficiency with key performance indicators (KPIs) of production figures showing a positive and progressive outcome over the years 2008 to 2013.

Mining Mx (2013) reported that Debswana has a sustainable business strategy based on commitment and responsibility, which gives it a competitive advantage in the diamond industry. The mining activities are found in four operational mines known as Letlhakane, Damtshaa, Orapa and Jwaneng with significant change in production and output prior to and after the acquisition of De Beers' stake by AA (Mining Mx, 2013).

4.2.1.1 Orapa Mine

Orapa mine is one of the mines owned and controlled 100% by Debswana. The production output of tonnes treated prior to the 2011 acquisition and post 2011 acquisition is shown in Figure 4-1. The treatment describes a process of screening and washing to remove diamonds from other waste particles (Mining Journal, 2005). Orapa is volume based in terms of ore mined versus the waste stripped with average stripping ratios of 1:1 overall for the last 5 years.

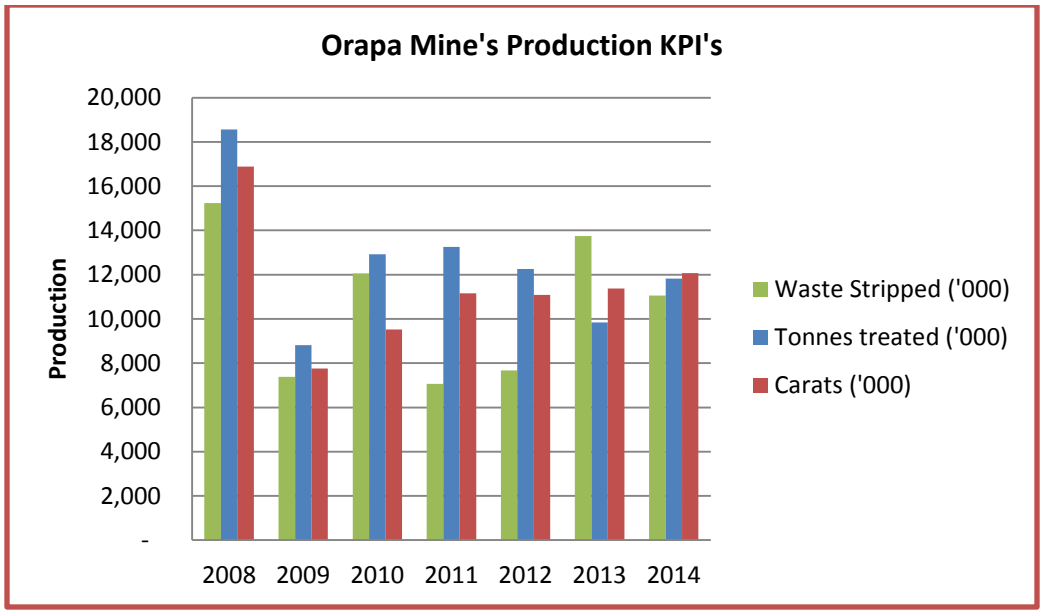


Figure 4-1: Orapa's KPI's pre and post-merger

The production KPI's from 2008 to 2011 are consistently increasing with a significant drop in 2009 which was mainly attributed to the global recession. However, the period between 2010 and 2011, the output was increasing with a gradual decline from 2012 through 2013. It was in 2011, when the 40% acquisition of AA in De Beers stake took place (Anglo American plc, 2011). The decline in production has been attributed to many internal adjustment factors, in the new share ownership structure and 2012 is the first post-acquisition period which witnessed a decline in output. There has been a downward trend on tonnes treated at Orapa mine with 2012 to 2013 figures falling below the 2009 and 2010 prior to acquisition (Debswana, 2010).

The total level of carats output has been increasing from 2009 through to 2011 where an upward trend has been maintained through the three year period. However, the level of output fell by 0.61% over the period 2011 to 2012, with a marginal increase of 2.5% in 2013. It was during the 2011 and 2012 period that the mine recovered from negative effects of the recession resulting in a slight pick-up of output in 2013 and 2014. There is a general upward trend of carats throughout the period under review despite a slight decline in 2012.

The decline in treated tonnes over the period 2011 to 2013, with a combined increase in the output trend of carats between the period 2011 to 2014, indicates an improvement in operational efficiency at Orapa mine. The operational efficiency is measured in terms of tonnes treated

which are high relative to the production of carats which has indicated an upward trend despite a marginal decrease in 2011. Increase in carats and reduction in tonnes highlights increase in grade of the mined blocks. Overall, the production in terms of carats has maintained an upward trend with a small decline in 2011, as compared to tonnes treated which have been declining since 2011. There is no proof of significant impact on production output as a result of the merger. Orapa is currently assessing the possible pit expansion, Cut 3 which will significantly increase the waste profile.

4.2.1.2 Letlhakane Mine

Letlhakane mine is one of the mines owned and controlled 100% by Debswana. The production output for Letlhakane mine prior to and after acquisition for the period 2009 to 2011 is illustrated in Figure 4-2.

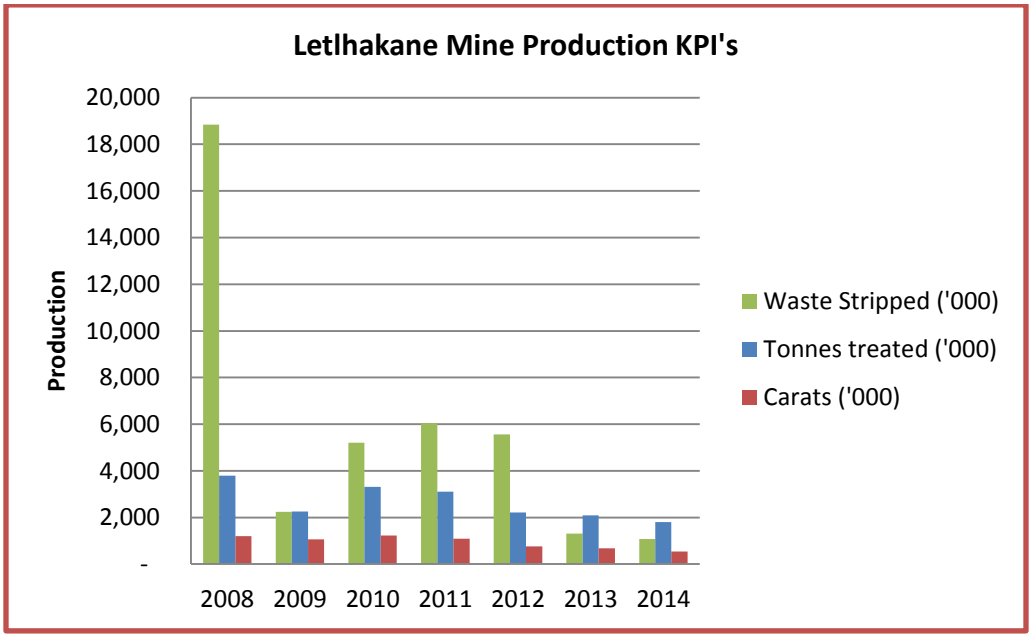


Figure 4-2: Letlhakane Mine KPI's pre and post-merger

The output production for tonnes treated increases in the period 2009 to 2010 by 46.2%, before it declined by 6.2% in 2011. In 2012, the total output declined by 28.43% from 3.102 million tonnes treated to 2.22 million tonnes treated and the trend has been downward covering the period 2013, where the decline was 5.95%. There is a similar trend across all production KPI's. The same trend has been witnessed in the production of diamond carats.

The total carats produced by Letlhakane Mine have been sluggish over the period 2009 to 2014. There was a marginal pick up by 13.13% from the period 2009 to 2010, with a marginal decline by 9.5% over the period 2010 to 2011. Since 2011, the production output has been declining by 29.98% and 10.73% in the period 2011 to 2012 and 2012 to 2013, respectively. The output has maintained a downward trend through the 2011 to 2014 operational period. The general results imply that Letlhakane mine has not been performing well since the 2010 period through to 2014. There was an overall decline in output by 55% between the period 2009 to 2014. However the major decline was between 2011 to 2012 by 27% relative to a decline between the periods 2008 to 2011 of 9%. The last four years, from 2011 to 2014 shows a much larger decline in total production in the Letlhakane mine (Mining Mx, 2013). Letlhakane is at its end of life of mine of the open pit thus the reducing KPI's profile and has currently embarked on the treatment of the tailings project.

There is no proof of significant impact on production output as a result of the merger from the analysis. The mine has been currently placed under care and maintenance for the next 3 years as the company's strategy in response to the current and forecasted sluggish market conditions. Letlhakane mine is not included in the list of the 16 operations though the official announcement of divesting has not been made yet (Anglo American plc, 2016). This still leaves a lot of question marks about the future of the mine.

4.2.1.3 Damtshaa Mine

Damtshaa mine is one of the mines owned and controlled 100% by Debswana. The results obtained for the production KPI's for Damtshaa Mine for the period 2008 to 2013 are shown in Figure 4-3.

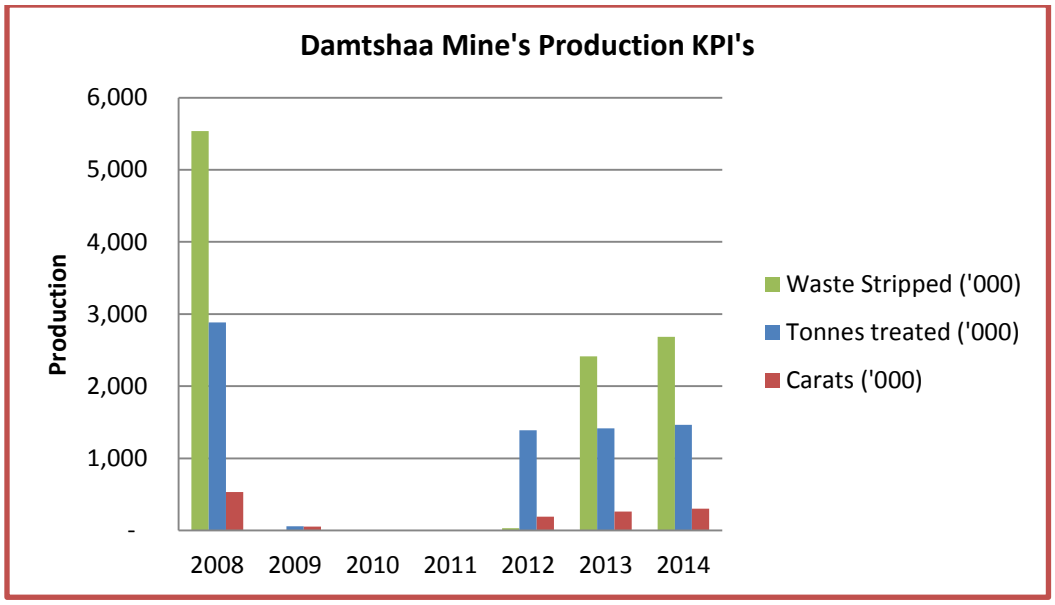


Figure 4-3: Damtshaa Mine production KPI's pre and post-merger

The production has been upward for the tonnes treated, with year 2009, recording 0.6 thousand tonnes treated. However, in 2010 and 2011, there was no production as the mine was on care and maintenance, with production picking up in 2012 reaching high levels of 1.387 thousand tonnes treated indicating a 131.17% increase in production. Moreover, the mine retained an upward trend in 2013, when output increased by 2% from 1.387 thousand tonnes to 1.415 thousand tonnes over the period 2012 to 2013. The general trend in tonnes treated has been witnessed on carats produced.

The total production declined over the period 2009 to 2010, from 0.54 thousand tonnes to 0 as the mine underwent care and maintenance over the period. There was no production between the period 2010 and 2011, with production resuming in 2012, with a total output of 0.191 tonnes of carats produced. There was a 38.22% increase in output tonnes treated produced in 2013 from 0.191 thousand tonnes to 0.303 thousand tonnes over the period 2012 to 2014. There is no proof of significant impact on production output as a result of the merger.

Currently Damtshaa Mine has been placed under care and maintenance and will be for the next 3 years (until 2018) in response to the 2015 market conditions. The 2015 market conditions have led to the changes in the company's mining strategy for the next 3 years which has seen massive reduction in the carats production.

The strategy is seemingly to be highly influenced by AA of the reduction of the current portfolio (reducing from 55 operations in 2014 to 16 operations in 2015 (Wilson, 2016)). Damtshaa mine is also not included in the list of the 16 operations though the official announcement of divesting has not been made yet (Anglo American plc, 2016).

4.2.1.4 Jwaneng Mine Production Statistics

Jwaneng mine is one of the mines owned and controlled 100% by Debswana. It is the largest mine by value in the world and it contributes about 60-70% of Debswana's total revenue (Debswana, 2015). It is one of the lowest cost diamond mines in the world (Manson, 2012). The production statistics for Jwaneng mine for the period 2009 to 2013 are summarised in Figure 4-4.

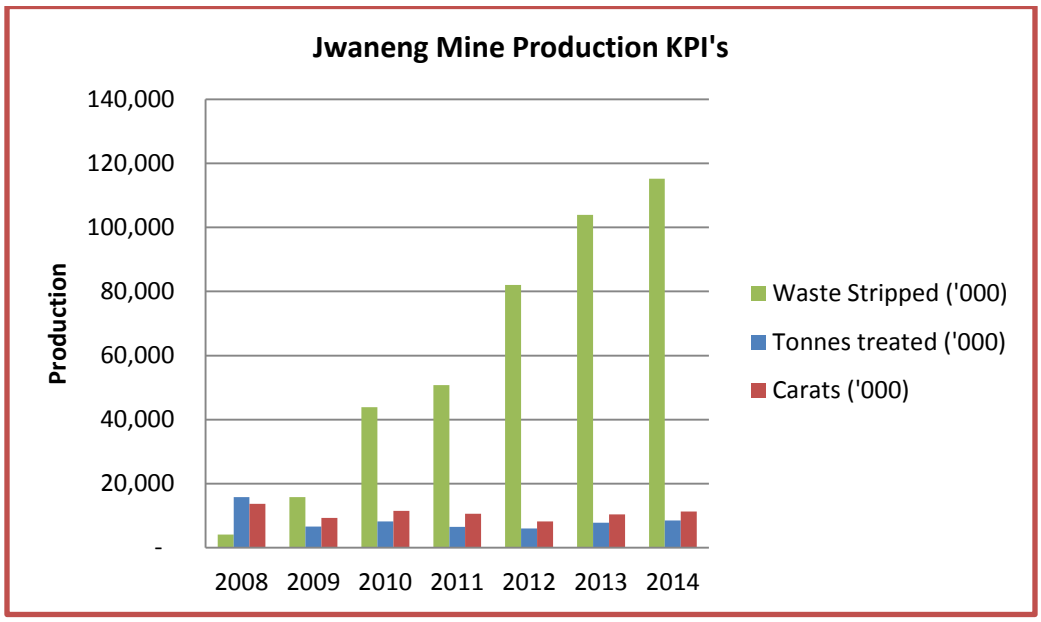


Figure 4-4: Jwaneng Mine production KPI's pre and post-merger

The production trend has been sluggish over the period 2009 to 2013 in terms of tonnes treated and carats produced. There was an increase in tonnes treated of 24% between the periods 2009 to 2010, before a decline of 19.88% in 2011, with a further decline of 7.12% in 2012. However there was a positive peak of 27.39% in the period 2012 to 2013. The trend of carats production is also sluggish, with an upward jump of 23.21% from 2009 to 2010, before a decline of 7.22% in 2011. There was another 23.20% decline 2012 and a sudden 27.09% increase in the level of output in 2013. There has an increase in waste stripping of more 2000% from 2008 to 2014

mainly because of the cut 8 project. Cut 8 project which has increased the stripping ratio from 0.33 to the peak of 13.6.

In 2010, Debswana invested an estimated US$3 billion (approximately P29 billion) in the Cut-8 project that will extend the life of the mine to at least 2025 and deliver approximately 100 million carats from 92 million tonnes of ore (thevoicebw, 2015) thus the jump in waste stripping from 2010 to 2014. The waste is approximately 550 million tonnes in a space of 7 years thus the significant increase in the waste profile from 2010. The bottleneck will be realised in 2017. The merger has not influenced the production output levels at Jwaneng mine. Jwaneng is currently assessing the possible pit expansion, Cut 9 which will require some waste dump relocations thus significantly increasing the waste profile. There is no of proof significant impact on production output as a result of the merger from the analysis.

4.2.1.5 The summarised carats production

The total production in carats for Debswana mining company from the period 2009 to 2014 are summarised in Figure 4-5.

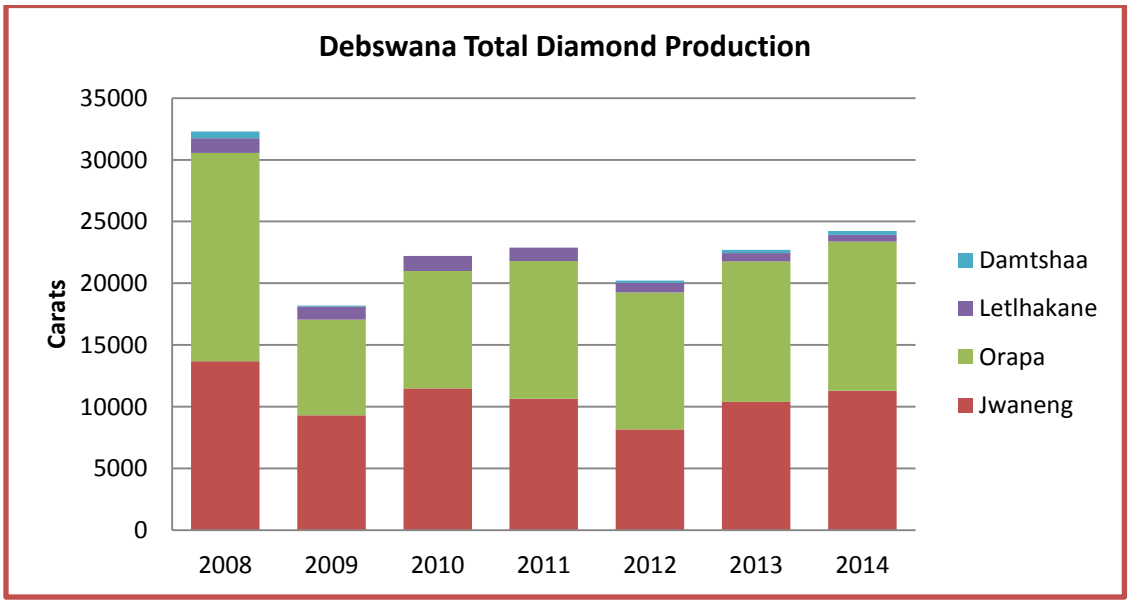


Figure 4-5: Carats production of all the four mines pre and post-merger

The trend has been sluggish with a decline by 19.7% in total output in thousands from the period 2009 to 2010. However, there was a slight pick up by 3.02% in 2011, followed by another decline of 11.68% in 2012. There was also a significant increase in production from 2012 to

2013 of 12.32%. Overall the production trends for diamonds in carats have significantly gone down, by 24.98% over the period 2009 to 2014.

The period from 2009 to 2011, showed a decline in carat production measured in thousand carats by 17.28%. The time period 2009 to 2011, is prior to the acquisition of De Beers shares by AA, with the period 2011 to 2014 indicating a 5.83% increase in output. The general trend can be generalised to indicate that there was been a significant decline (17.28%) in output prior to the acquisition in comparison until acquisition period where there is an overall increase of (5.83%). Debswana contributed an average 71% to the De Beers production for the last 5 years**.** There is no proof of significant impact on production output as a result of the merger from the analysis as the trend remained relatively stable over the period of 5 years, pre and post-merger. The diamond production strategy has been changed for the next 3 years with the focus being to produce to the market demand due to the falling market prices.

4.2.1.6 Morupule Coal Production

Morupule colliery is a coal mine located in Palapye, Botswana. It is owned 100% by Debswana. The company has a production capacity of 1 million tonnes per-annum, (United States Enviromental Protection Agency, n.d.). The production output in terms of tonnes prior to the merger and after the merger period is illustrated in Figure 4-6**.**

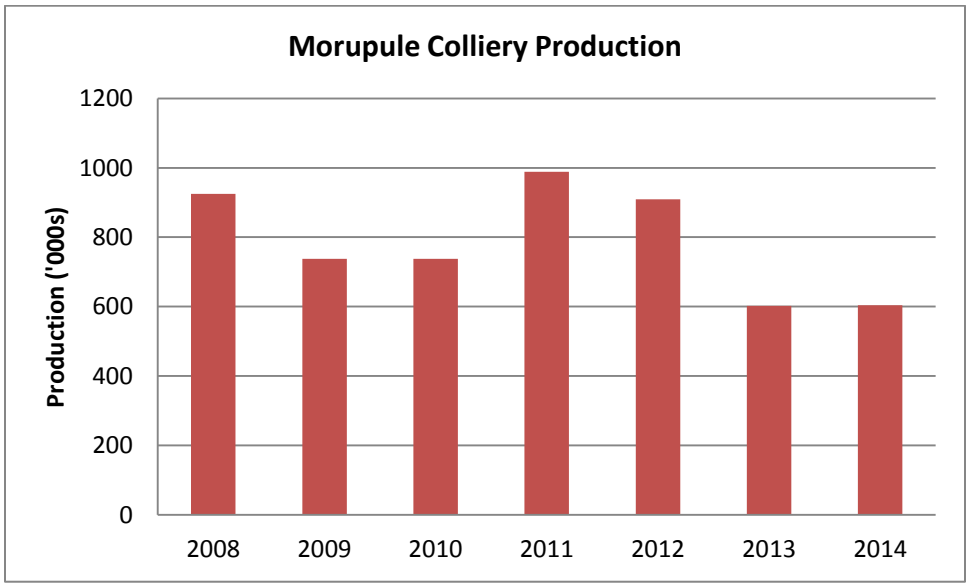


Figure 4-6: Morupule colliery production pre and post-merger

The production output has increased by 23.26% in 2011 before a continuous decline throughout the three year period ending 2014. Though there was some upgrade of the Morupule power station, the mine production has been decreasing gradually post the merger transaction. There was a 67.76% decline in 2012, before a further 14.85% and 0.35% decline over the period 2013 to 2014, respectively. This was due to a major improvement with high costs on impairments and financial charges over the loan borrowed during the renovation process and also the technical challenges in the Morupule B plant. This has led to significant power challenges throughout the country. However, the output is expected to increase after the completion and stabilisation of the expansion project which is expected to increase production to about 4 million tonnes per annum, with major supply to the Morupule Thermal Power plant (Morupule A and Morupule B plants), (United Nations Conference on Trade and Development, 2012). There is no proof of significant impact on production output as a result of the merger.

4.2.2 Financial performance

Debswana contributes on average 71% to De Beers' production and the assumption is that it contributes 71% to the De Beers profits that are then transferred to AA. Figure 4-7 shows the total production by all the De Beers operations per company across the world and its percentage contribution.

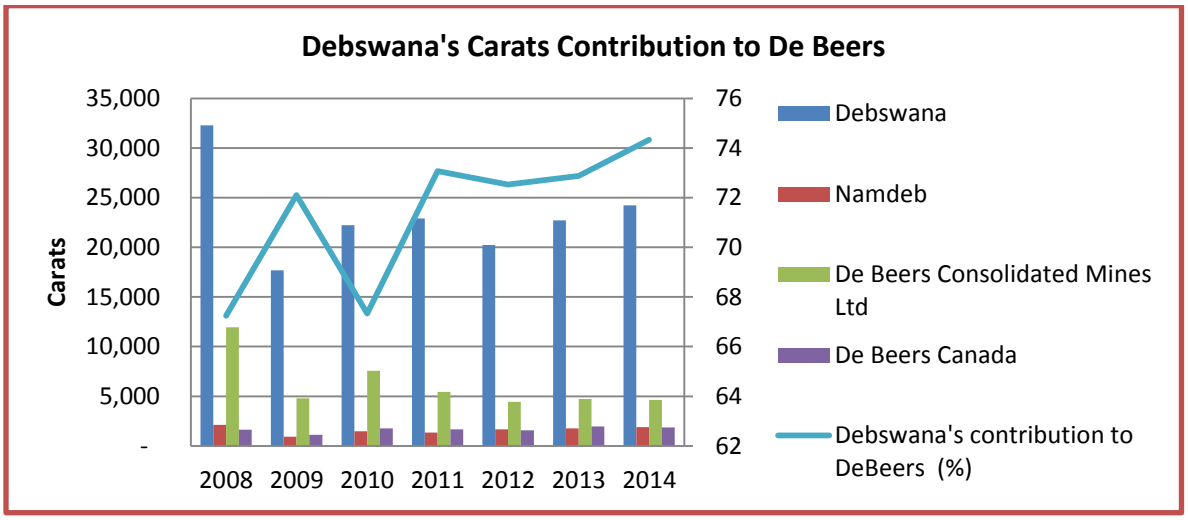


Figure 4-7: Debswana's contribution in terms of carats to De Beers

The percentage diamond revenue contribution to AA doubled on average post the merger accounting for 22.9% on the year 2014 with the trend going up over the years as per the

Table4-1. The figures show that Debswana is the major contributor to the AA's diamond mining sector.

Table4-1: Revenue contribution by diamonds to AA

	2014	2013	2012	2011	2010	2009
Diamonds (De Beers) ($millions)	7,104	6,391	4027	3320	2644	1728
AA Total ($millions)	30,988	33,063	32,785	36,548	32,929	24,637
% diamond contribution	22.9	19.3	12.3	9.1	8.0	7.0
Debswana %contribution	74	73	73	73	67	72
Debswana %contribution to Revenue	16.96	14.11	8.97	6.63	5.38	5.05

4.2.3 General operations and administration

Debswana's focus prior and post the acquisition of De Beers stake by AA was mainly on carat production to the market or demand, efficiency improvement, health and safety (zero harm) and overall achieving a total decrease in expenditure. Changes in carat production become difficult to associate with the merger as it is highly dictated by the market conditions. Debswana, like any De Beers operation or company, produces in line with the market demand and the current strategy business plans (and the next 3years) is to reduce the carat production. This has been noted by the reduction of the individual mine carat production which saw temporary closure of Letlhakane and Damtshaa mines.

The new partnership after the acquisition of the De Beers shares continued with the same vision, mission statement and objectives with changes in the management and the board of directors. The levels of corporate social responsibilities have been maintained with the company reaching out to many communities, evolving into corporate social responsibilities. The fight against H.I.V, cancer, reaching out to the less privileged has been maintained throughout the period.

On the administration part, there has been a successive change in the management mainly the CEO and Managing Directors. The change in management has not affected the strategy of the company with the same strategy outlined in 2011 of improving operational efficiency through commitment being carried out throughout the period (IEA, 2014).

4.3 Anglo American plc.'s performance

Anglo American plc operates is one of the largest world mining company in Africa, Europe, North and South America, Australia and Asia. The company specialises in iron ore, manganese, copper, nickel, niobium, phosphates, platinum and diamonds. The operational and financial performance has been improving over the years, with major shifts attributed to global crises during the 2007 to 2011 period. The increase in production has been primarily due to mining expansion activities in both major and minor mining areas for AA. The following analysis focuses on AA's performance on prior acquisition of De Beers' shares and post-acquisition covering the financial period 2012 to 2014.

4.3.1 Anglo American plc's financial performance

The profitability of AA derives its performance from its core mining operations as shown in figure 1-1. The objective of any company is to introduce strategies that improve its profitability. Figure 4-8 shows the summary of the profitability of AA from 2010 to 2014. The period covers the period prior to the acquisition of De Beers' shares by AA (2010 to 2011) and the post-acquisition period (2012 to 2014). The summary for AA's profitability over the period 2010 to 2014 is illustrated in Figure 4-8.

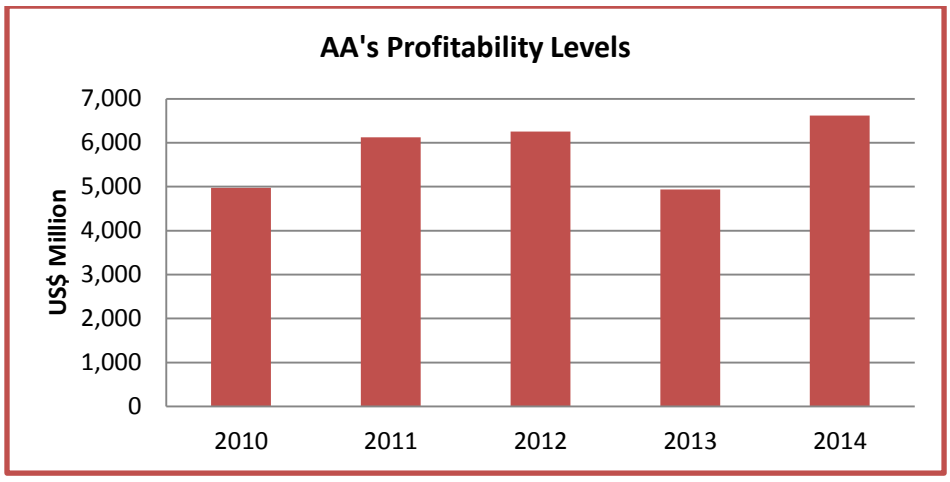


Figure 4-8: AA's profitability levels

The profit margin for AA has been sluggish over the period 2010 to 2014. The profits have been increasing since 2010, with a decline in 2013 before a sudden pick up in 2014. The improvement in profits over the years has been attributed to diversification as the company

continued to deal with eight different mineral commodities. The decline in the price of one mineral commodity is compensated for by an increase or price stability for other minerals on the global market (United Nations Conference on Trade and Development , 2012).

The profit margin for 2010 to 2012 increased by 0.021% due to the disposal of 24.5% of Anglo American Sur (AA Sur) in 2010 (Anglo American plc, 2012) which reduced the operational capacity and disposal of unproductive fixed assets. There was a weaker commodity window period during the 2010 to 2011 trading period due to foreign exchange movements which led to a marginal increase in the profit of AA (Anglo American plc, 2012). The operations were reduced when the company sold off some subsidiaries which were not profitable (Valtsev, 2015).

The period 2013 also saw a slight drop in profits of US$175 million relating to the sale of the 70% stake in Amapa mine in November 2013, which was sold at a loss of US$404 million. The Amapa mine which specialises in iron ore and based in Brazil was sold to Zamin Ferrous Ltd, leading to recognition of a loss of US$404 million reducing the profit margins for AAby 34.20% (Valtsev, 2015). The reduction in profit was further worsened when the company withdrew from the Pebble copper project in Alaska in the same year which resulted in a charge of US$311million including the exit costs (Anglo American plc, 2013). An improvement in profits in 2014 was largely due to a US$7 million increase in profit arising from of a formation a joint venture with Tarmac quarry operations and Palabora mining group in South Africa (Anglo American plc, 2014).

Prior to the merger period with Debswana, AA had an increase in profits by 50.15% from US$4.08 billion to US$6.12billion. The year 2010 saw a jump in profits by more than 50%, as the commodity prices improved and exchange rate remained favourable during the recession period in major trading countries such as United States and China. During the merger period, AA saw a decline in profits by 2.17%, due to low demand in mineral commodities and extended administration owing to the merger with Debswana. AA has mining experience in copper, iron ore, manganese, copper, nickel, niobium, phosphates and platinum with no experience in diamond mining. However, Debswana has much experience in the diamond mining in comparison to AA which became a new player.

In 2013 and 2014, the profits further fell by 21.11% and 34.20%, respectively. The decline in AA's profit was at the backdrop of increases in Debswana's profits throughout the merger period. AA has been facing market price challenges which resulted significantly reducing production in some key commodity such as copper on the global market. The company has been engaged in realigning its company strategy by closing down or selling non-performing assets to focus more on the productive assets across its mining subsidiaries (Mining Mx, 2013). A significant move is the strategy to exit some of the coal and platinum assets (Peacock *et al*., 2015). Diamonds account for more than a quarter of revenues, while iron ore, coal, copper, and platinum have roughly equal shares in revenues. AA's financial health has been deteriorating for the last three years with no signs of improvement (Valtsev, 2015). Diamonds are contributing significantly to AA's revenue thus can be highlighted as one of the strategic commodities within the group. This can in turn lead to significant interference from AA in the running of the diamond operations as a way of protecting their interests thus disrupting the profitability of Debswana.

4.3.1.1 Profitability ratios

Though the profits have been equally positive, AA's net profit margin has been on a decline post the merger. This shows a reduction in the company's profitability.

The return on equity has been negative for the post-merger years predominately due to the ongoing company's strategy that aims at building the company resource base by buying more resources and letting go of the non-profitable resources.

The ROA of a company forms a profitability ratio which measures current resources utilisation of a firm (Ismail *et al*., 2011). The firm's ability to properly manage the assets at their disposal indicates the efficiency with which the company can use resources to generate income. The return on equity has been negative for the post-merger years predominately due to the non-profitable resources that AA is busy disposing as part of the strategy. The summary for AA's profitability ratios the period 2010 to 2014 is illustrated in Figure 4-9.

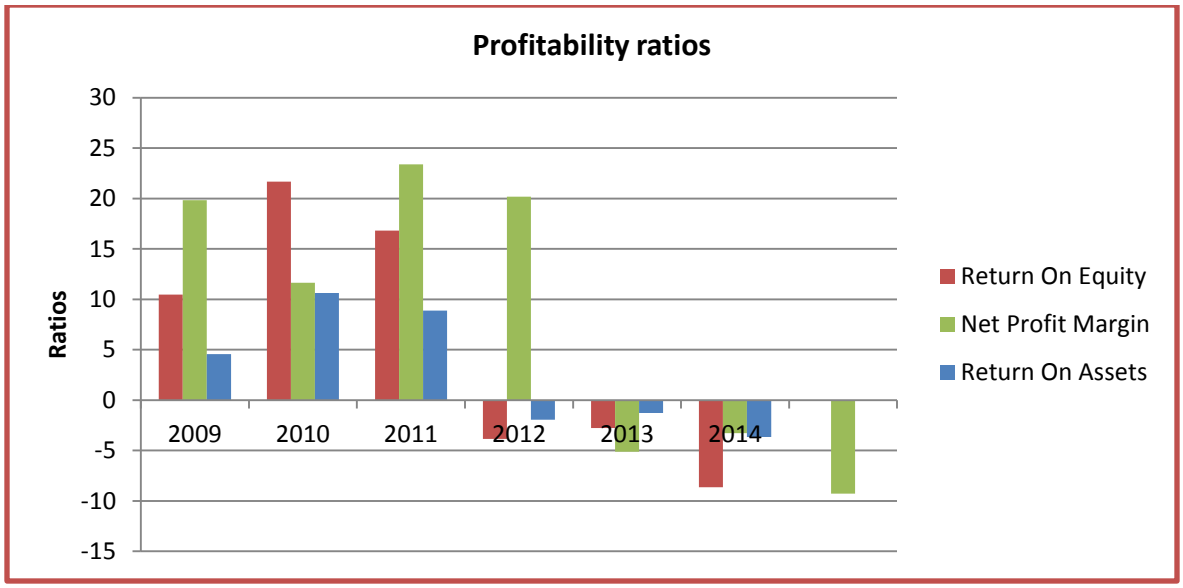


Figure 4-9: AA's profitability ratios pre and post-merger

In summary apart from the challenges faced by AA, the market has not been favourable either. Low commodity prices have been constraining the expected improvement in the AA's operating cash flow. AA is to manage its financial profile conservatively and meet most of the projected negative free cash flow (FCF) generation in 2015 with proceeds from divestments, limiting new borrowing (Moody's Corporation, 2015). The negative rating outlook reflects the expectation that AA's financial profile will remain weakly positioned in the next 12-18 months and exposed to downside market risks, while the company is executing a number of measures to raise cash flow generation of the existing assets, by ramping up volumes at the new projects and realising cost efficiencies (Moody's Corporation, 2015). Though diamonds contribution has been improving, AA's profitability has been decreasing post-merger. This is mainly due to the significant losses from other commodities due to the unfavourable market conditions. This can lead to loss of confidence in the company and its strategy leading to major shareholders divesting thus the collapse of the company and this will have ripple effects on Debswana and the GRB. The merger has not done much to improve the profitability of the company.

4.3.1.2 Net debt

The total debt of AA shows the creditors' claims over the company's assets. The total debt consists of current liabilities and non-current liabilities which are claims over the short and long-

term, respectively. The net debt shows the total amount of claims against the assets of the company. The higher the net debt, the more the company is exposed to a liquidity problem. The summary for AA's debt over the period 2010 to 2014 is illustrated in Figure 4-10.

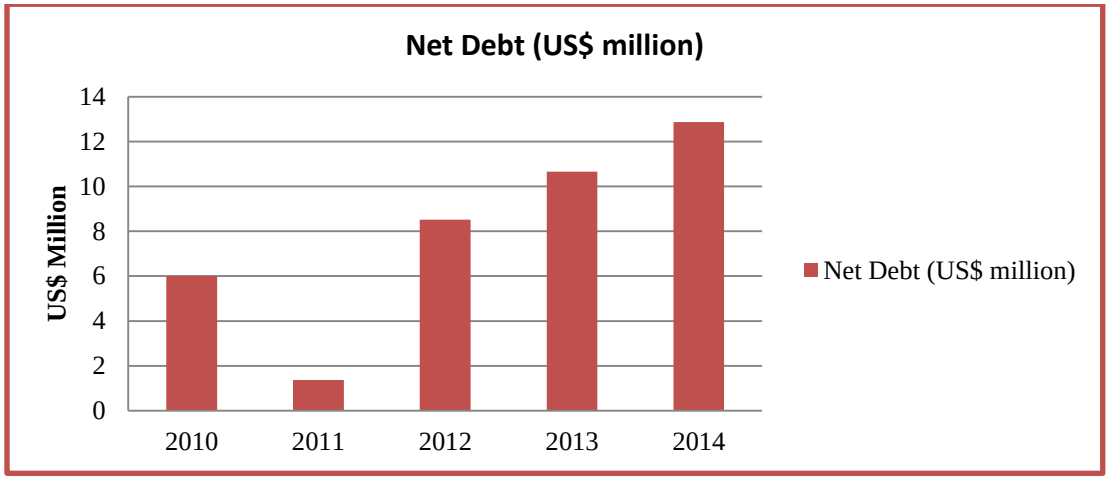


Figure 4-10: AA's net debt pre and post-merger

The net debt for AA has been increasing over time. The company has been borrowing for expansion purposes, with additional property, plant and equipment of over US$739 million over the 2010 to 2014 period. Also the US$ 5.1 billion De Beers shares were partly financed using credit (Marais & Biesheuvel, 2011). The expansion and replacement of property, plant and equipment for AA has been mainly financed through borrowing from financial institutions, hence attracting high financial costs which increased costs of operations.

However, the company has maintained high levels of profits despite high finance costs which arise from repayments of debt of US$188 million during the 2010 financial year. An increase in expansion expenditure improved the profitability of AA over the five year trading period. The increase in capacity improved production, coupled with strong commodity prices especially in 2014. The mining company managed to compensate the financial charges with high levels of profits.

However, the working capital was not favourable as more money remained tied up in current and non-current assets. This hampered the company's ability to meet its short term obligations with the company skipping repayment of its financial costs in May 2012, which was later paid in 2014

(Anglo American plc, 2014). AA has remained highly geared over the period with the extent of gearing improving since 2012 (Anglo American plc, 2012).

4.3.1.3 Liquidity ratios

Anglo American plc maintains a strong liquidity position. The company ensures that there are sufficient committed loan facilities (including refinancing where necessary) in order to meet short term business requirements, after taking into account cash flows from operations and its holding of cash and cash equivalents, as well as any Group distribution restrictions that exist. The summary for AA liquidity ratios over the period 2010 to 2014 is illustrated in Figure 4-11.

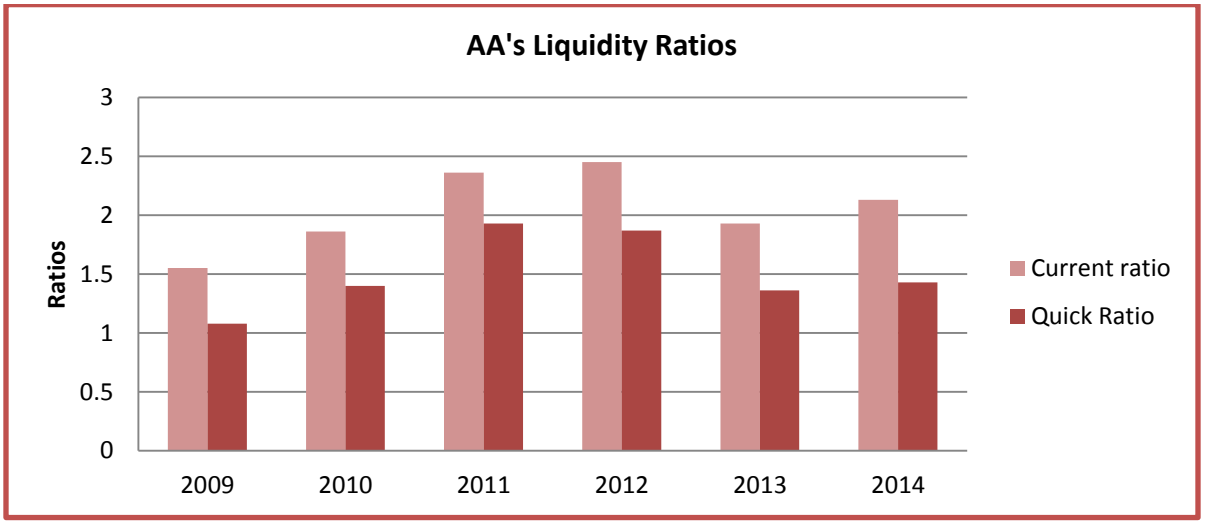


Figure 4-11: AA's liquidity ratios pre and post-merger

4.3.1.4 Dividends

The interim and final dividend paid during the year is illustrated in Figure 4-12.

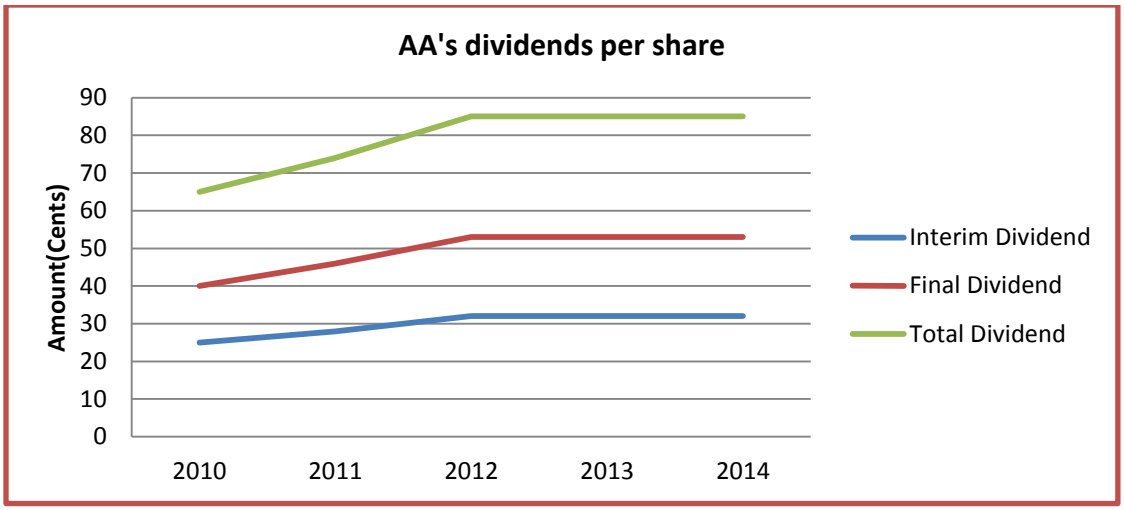


Figure 4-12: The dividends per share paid out by AA pre and post-merger

The total dividends paid over the five year period have been increasing, from 65 cents in 2010 to 85 cents in 2014. There was a slight improvement in dividend payment in 2011, from 65 cents to 74 cents mainly due to a decline in economic activity emanating from recession and changes in the commodity prices. It was during the 2010 period that the market demand for minerals in China declined to match the world demand for mineral output.

However, despite the slight growth the company maintained a positive investor's outlook by meeting its dividend obligation during the course of the year and at the end of each year. The general trend indicates that the dividend has improved throughout the five year period.

4.3.1.5 Earnings per share

The summary for AA earnings per share over the period 2010 to 2014 is illustrated in Figure 4-13.

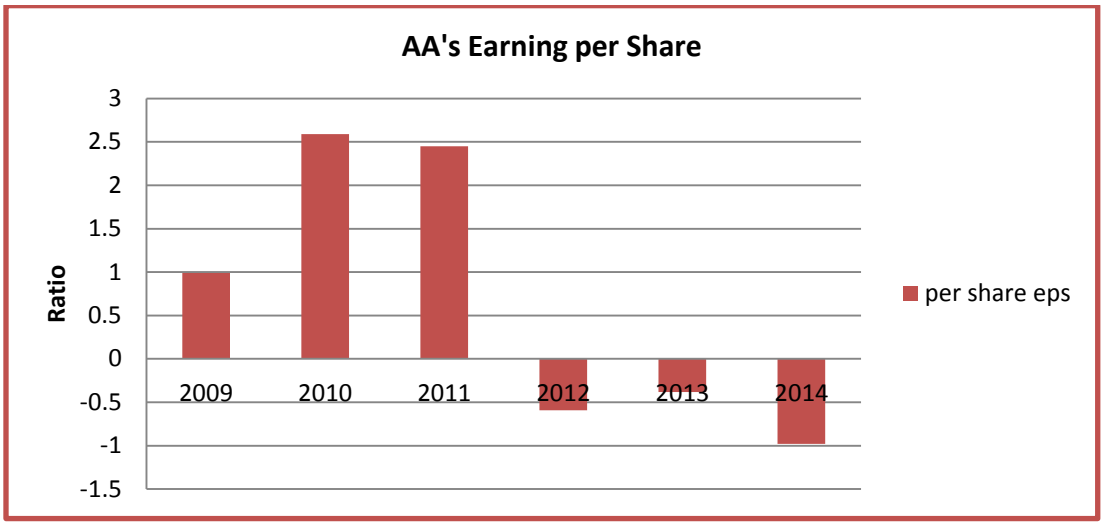


Figure 4-13: AA's earnings per share pre and post-merger

The basic earnings per share which shows the shareholders rewards for their investment is another measure of profitability and AA's performance. The basic earnings per share has been on the decline between the periods 2010 to 2012, from 5.43 per share to 1.17 per share. The major cause of the decline is global recession which led the mining company to incur high financial charges. This led to the decline in earnings per-share in the period 2010 to 2012.

However, in 2013 the earnings per share improved from 1.17 cents in 2012 to 2.09 cents in 2013, due to improvements in operations from expansion activities. There was however another decline from 2.09 cents per share to 1.73 cents per share in 2014. The decline witnessed high retained profits as the company continued with its expansion programs. The profitability of the company was also affected during the 2014 period due to high financial charges, and disposal of some non-productive fixed assets.

4.3.1.6 Return on capital employed (ROCE)

The attributable ROCE for AA has been increasing prior to the merger and has seen a significant drop post-merger. In 2009, the ROCE was 14.8%, which subsequently improved in 2010 and 2011 to 24.8% and 26.5% respectively. However there was a drop in 2013 and 2014. The volatile

commodity prices have significantly been attributed to the declining AA's ROCE, (Mining Mx, 2013). The summary for AA ROCE over the period 2010 to 2014 is illustrated in Figure 4-14.

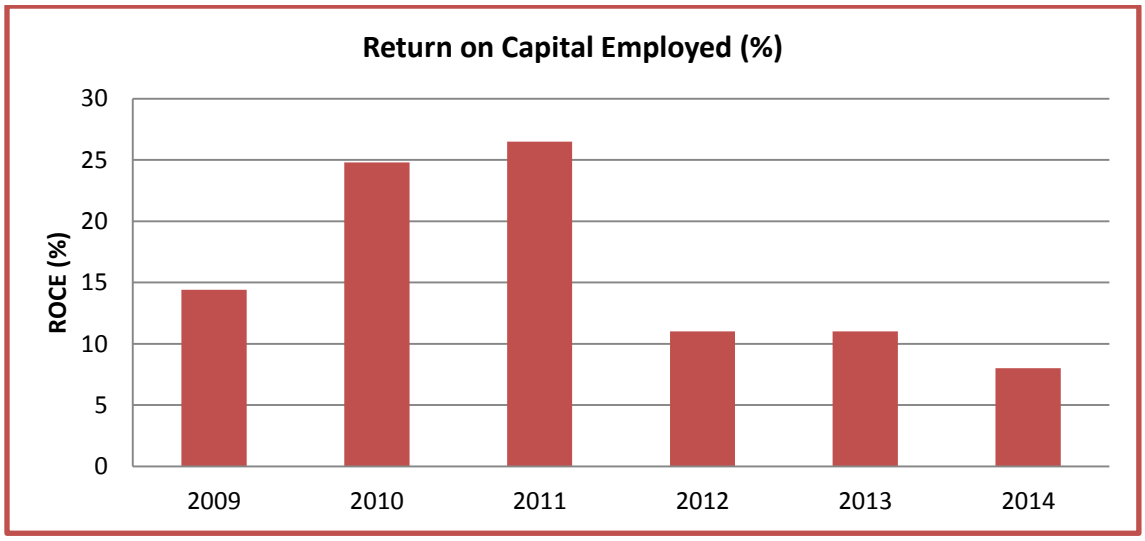


Figure 4-14: AA's ROCE pre and post-merger

The decline in ROCE in 2014 was as a consequence of weaker commodity prices, coupled with ongoing high capital expenditure and high impairment costs. The average capital employed increased by 0.001% from US$39.7 billion in 2013 to US$40.4 billion in 2014. The main capital expenditure was Minas Rio and Grosvenor in Brazil, (AngloAmerican plc, 2014). The diamond ROCE was at the group target of 15% (Anglo American plc, 2014) thus showing less impact on Debswana by the overall group challenges.

4.3.2 General operations and administration

The year 2013 saw a change management from Cynthia Carroll to Mark Cutifani as the AA new chief executive officer which has led to a modification to the company strategy. Driving value is the new company strategy which focuses on delivering at least 15% attributable return on capital employed (ROCE) by 2016. AA has several assets of the highest quality of which 80% of the earnings are derived from assets in the bottom half of the industry cost curves. For AA, the effects of such a difficult macroeconomic environment were exacerbated by operating challenges at key operations and adversarial labour relations in South Africa. Falling prices across most of the company's commodities (US$2.4 billion impact), and the five month strike at platinum mines (US$0.8 billion impact) more than offset the increases in underlying Earnings Before Income

Tax (EBIT), most notably at De Beers (highest revenue across the group for 2014). AA's focus for the future is to prioritise capital for projects with the highest value (e.g. Minas Rio) and lowest risk profiles within their portfolio, and to reduce the capital required to sustain such projects.

4.4 Chapter summary

The results indicate the performance of Debswana in five major mining subsidiaries. The mining activities are found in four operational mines known as OLDM, (Letlhakane, Damtshaa, Orapa) and Jwaneng which specialises in diamond production, with Morupule which focuses on coal production. The production for Debswana has improved prior to the acquisition of De Beers shares by AA. However, the production trend has been sluggish, due to the negative effects of economic recessions which slightly affected the market for diamonds. The period 2012 to 2014 witnessed an increase in profits at a decreasing rate with output levels falling and rising after the recession period. The coal production however in Morupule mine declined over the period as the company focused on expansion programs, to eliminate high impairment costs due to frequent breakdown of machinery.

On the other hand, the profit margins for AA have remained high, but declining. The company has undertaken major expansion programs financed through bank borrowing which increased its financial charges and impairment costs. The ROCE declined over the period, leading to a persistent decline in earnings per share. However, dividends paid remained high during the pre-acquisition period and declined after-the acquisition of De Beers shares by AA. The general AA trend shows the company has remained operationally vibrant with some operational challenges mainly due to high levels of gearing, financial charges, impairment costs and global crises. The output levels for diamond production remained high with other commodities slightly affected with fluctuations in prices and exchange rate movements.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Chapter overview

This chapter entails the summary of the entire project. It then states the recommendations for the two companies for a successful merger. It also highlights some of the limitations of this research project and recommendations for further research.

5.2 Discussion of findings

This section summarises the findings of this study through answering the questions that were asked as a guideline to the research. The interpretations are explained in the next sections.

5.2.1 The reasons why GRB did not take the opportunity to increase their stake in De Beers.

The GRB owns 15% of De Beers and had pre-emptive rights to increase its stake to a maximum of 25% at a cost of US$1.275bn and in which case AA's ownership would go from 45% to 75%. This meant that GRB would have still been short by 1% (as explained is section 5.1.3) to be able to participate in De Beers decision making thus making them an ordinary partner with 'no power'. An average of 70% of De Beers revenue thus profit is from Debswana and about 80% of the Debswana revenue /profits are paid to the GRB through the partnership share, royalties, taxes and other initiatives. So in essence only 20% leaves the country to be counted as 70% at De Beers. So GRB could have bought only 2% (10% of the De Beers shares that GRB was entitled to buy) of the profits at a cost of US$1.275bn. In addition the transaction did not affect the recently signed sales agreement with De Beers which included the relocation of DTC from London to Botswana to strengthen the diamond beneficiation arm.

5.2.2 Assessment of how Anglo American plc's 'vulnerability' will impact on Debswana.

Though the research has shown a decline in AA financial performance as shown by the different financial ratios, post-merger from highs of 26% pre-merger to 8% post-merger, it has failed to show any impacts on Debswana. The group has been faced with multiple challenges that has led to divesting into other operations around the world and with unconfirmed reports of divesting in their South African platinum assets. The information used for the research was clouded by a market dynamic thus leading to inconclusive remarks. Production has remained consistent pre

and post-merger thus the assumptions are that profit margins (due to the higher ROCE of 15% target met) remained the same with everything else being equal.

5.2.3 Inference of the potential opportunities and risks associated with the acquisition of the De Beers shares by Anglo American plc on Debswana.

The Strengths, Weaknesses, Opportunities and Threats (SWOT) methodology is used in attempt to identify the impact on Debswana by the merger with AA. The SWOT considers the 2 companies after the merger. The SWOT analysis is presented in Table 5-1.

Table 5-1: SWOT analysis

Strengths -Synergies when dealing with suppliers for Debswana thus gain bargaining power to lower prices. -Human resource growth and development through exchange programs -Technical expertise by AA on mining and GRB on diamond mining.	**Weaknesses** - Bureaucracy in terms of decision making.
Opportunities -Capital investment through consolidated business strategies. -Value driven mining through AA's consolidated mining strategy. -International standards compliance by Debswana through AA as a listed company	**Threats** -Spillover risks from other commodities within the AA group that might affect Debswana. -Prolonged volatility of the commodity markets

5.3 Conclusions of the study

Mergers and acquisitions are aimed at strengthening efficiency, improving competitive advantage, achieving synergy and economies of scale and improving company value. M&A pursue the profitability, liquidity and solvency objectives of an organisation. The study was carried out to investigate the possible impact of the partnership of Debswana and AA on the GRB through the M&A transaction that occurred in 2011. The research found that there has been a significant reduction in AA's financial performance post-merger but Debswana's performance has been consistent. There are possible opportunities on the ground that can strengthen both the two companies in terms of possible synergies as highlighted in Section 5.2.3. Unlike the AOL

Times Warner merger, the two companies do not have significant cultural differences that can compromise the transaction. Like the GlencoreXstrata merger, the two companies stand a better competitive advantage and improved efficiencies due to the on the ground synergies.

5.4 Limitations of the study

The main limitation on this study is the highly confidential and unavailable Debswana figures which compromised the conclusions to the study. Finally, the pre and post-merger results are based on a few years of analysis which have also seen turmoil in terms of the market and this may have affected the results; a longer period of time on the post-merger could have resulted in different conclusion.

5.5 Recommendations

Based on the findings of the study, it is essential to give recommendations in order for the two companies to benefit more from the M&A transaction. It is recommended that:

- AA should have minimal interference on the day to day management of De Beers thus Debswana as they have the long term experience in diamond mining comparatively. It should be come on board as a strategic partner; and
- An aligned management strategy to avoid a clash of the two companies just like the AOL Times Warner merger. Management should come up with an aligned strategy towards resources and liability management so as to avert the problem of unaligned investments and also the quality of resources should be enhanced for improved ROCE.

Management should instill discipline and a culture of good corporate governance and promote technological progress so that the continued existence of the two companies is not compromised after undergoing mergers and acquisition transaction. Currently the market is very volatile, bureaucracy should be minimised through reducing the reporting lines on both companies to make timeous and strategic decisions to avoid further financial losses.

5.6 Areas for further research

Further research can be conducted on the current AA strategy that aims at divesting in other operations and focusing on others and its impact on Debswana over a much longer period than 3

years. There is a noted possibility of divesting of other Debswana operations as per the AA strategy and this can greatly impact on GRB.

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7. APPENDIX A

DEBSWANA
JWANENG MINE

1 July 2014

Khumo Mothulatshipi
PO Box 835
Jwaneng
Botswana

Dear Sir/Madam,

RE: PERMISSION TO CONDUCT RESEARCH STUDY

Reference is made to your letter dated 20 June 2014, requesting for permission to conduct a research for your Master's dissertation; the implication of the DeBeers acquisition by Anglo American on Debswana business and its operations primarily on risk management. We have the greatest pleasure in informing you that your request has been successful.

Please note that for any information regarding the mine your request should be addressed to the Senior Manager- Mining. We look forward to assisting you in this research.

Yours faithfully,

Koolatotse Koolatotse
Senior Mining Manager
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