EFFECT OF M&As ON THE PERFORMANCE OF THE MANUFACTURING SECTOR IN KENYA (FINANCIAL PERFORMANCE, EMPLOYMENT, PRICES, OUTPUT, MSMES/SMEs) REPORT

NOVEMBER, 2023

EXECUTIVE SUMMARY

The Authority received more notifications from the manufacturing sector since the revision of merger thresholds compared to other sectors. Consequently, to assess the nature of the impact of revised thresholds on the post-merged entities in the manufacturing sector it was necessary to determine whether the revision sufficiently excluded MSMEs from notification or whether further revision was necessary to achieve the same.

The scope of the study was the manufacturing sector in Kenya[1] with a special focus on undertakings involved in approved mergers for the period between the years 2012 to 2022. A sample of sixty-five (65) entities were targeted, with an engagement rate of 81.5%. Sub-sectors within the manufacturing sector involved in the study included: the edible oils sector, chemicals sector, beverage production and processing, food manufacturing, and cement sectors.

Generally, the performance of the target undertakings was gauged by assessing their financial performance, the price trends of the relevant products, their production capacity, impact on employment, and ascertaining whether revision of merger thresholds led to the reduction of merger transactional costs, by enabling MSMEs to consolidate more easily and become effective competitors through enhanced profitability. Lastly, the study also sought to establish the adequacy of the Public Interest Test (PIT).

A descriptive survey research design was employed which facilitated obtaining quantitative data regarding the respondents' attitudes, opinions, and characteristics. Data on opinions and attitudes from merged entities and their competitors in the manufacturing sector was obtained through the use of a structured questionnaire to collect primary data from sampled respondents post-merged. Face-to-face interviews were employed in collecting the data through the use of questionnaires which comprised closed-ended and open-ended questions that facilitated the collection of both quantitative and qualitative data from respondents.

In the analysis, the team used descriptive statistics to determine the opinions of undertakings towards the effects of merger approvals on financial performance, prices, output, and employment. Data was analyzed through SPSS[2] Version 26, frequency distribution tables, percentages, and measures of central tendency, and findings presented in graphs, charts, and tables with appropriate inferences provided.

The study established that Mergers in the manufacturing sector resulted in a positive effect on the financial performance of merged entities irrespective of their size, nature of shareholding, and the nationality of directors through a positive impact on the production capacity. A positive effect

[1] Nairobi, Mombasa, Kiambu, Nyeri, Muranga, Nakuru, Machakos, Laikipia, Kisumu, Kericho, Bungoma, Trans-Nzoia, Uashin Gishu, Meru, Kisii

[2] Statistical Package for the Social Sciences

on the profitability of MSMEs in the short run was observed in addition to an increase in the number of employees. No clear relationship between price movements and mergers in the manufacturing sector established.

It was determined that the revision of the merger thresholds had not sufficiently reduced the merger-related transactional costs for MSMEs in the manufacturing sector particularly due to the inclusion of assets in the determination of thresholds. Most MSMEs in the manufacturing sector therefore, still meet the threshold for notification which increased in their transactional costs. This finding was attributed to the asset-intensive nature of the sector which makes more players often exceed the current exclusion threshold of KES 500 million. This therefore did not sufficiently enable MSMEs to consolidate easily and become effective competitors in their markets. Further, the respondents indicated that the factors currently considered under the Public Interest Test are not sufficient to address emerging issues such as sustainability and Environmental Social and Governance issues (ESG).

Therefore, there is a need to consider revision of the merger notification thresholds for the manufacturing sector focusing on the relationship between assets and turnover. The Authority also to consider additional factors in addressing Public Interest concerns in that sector, such as local ownership of companies, corporate social responsibility (CSR), and Environmental social and governance (ESG) issues relating to the merging parties during merger analysis.

ABBREVIATIONS

CA	Communications Authority of Kenya
CAK	Competition Authority of Kenya
CBK	Central Bank of Kenya
COMESA	Common Market for East and Southern Africa
FY	Financial Year
GDP	Gross Domestic Product
KES	Kenya Shillings
KNBS	Kenya National Bureau of Statistics
M&A	Mergers and Acquisitions
MSMEs	Micro Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
The Act	Competition Act No. 12 of 2010

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1.0. INTRODUCTION

1.1 Background

1. The Authority is mandated under Competition Act No. 12 of 2010 (the Act) to safeguard and promote competition in the national economy and protect consumers from unfair and misleading market conduct. Promotion and protection of effective competition is achieved by among other means, regulation of market structure through control of Mergers and Acquisitions (M &As) under the provisions of Part IV of the Act.

2. According to the Act, a merger means an acquisition of shares, business, or other assets, whether inside or outside Kenya, resulting in the change of control of a business, part of a business, or an asset of a business in Kenya in any manner and includes a takeover. Acquisition on the other hand entails one organization acquiring the business of another. Each merger activity is expected to induce two types of effects either competitive or anti-competitive. The classification is dependent on the nature of the business the two entities are involved in at the time of applying the M&A strategy. There are three types of mergers namely horizontal, vertical, and conglomerate adopted by organizations and each influences the competition level of the market differently.

3. Generally, M&As are corporate restructuring activities conducted in a bid to enhance the firms' returns or increase the efficiency of their operations. There are benefits attributed to M&As and this factor has increased their attractiveness globally hence the recent trend towards M&As. Hernandez and Juan (2010) concluded that, as the operating environment changes, firms realize that they lack the requisite strengths to compete favourably and survive, constrained by time to develop such strengths and capabilities. This realization is often coupled with the fact that opportunities present themselves only for a limited period waiting for the aggressive parties to capitalize on them. By efficiently doing so, these parties benefit immensely from the M&As. Therefore, with such realization, organizations scout for target firms with the appropriate capabilities and strategic strengths and acquire them.

4. According to Kemal (2011), M&As are being increasingly used globally for improving firms' competitiveness through gaining greater market share, broadening the portfolio to reduce business risk for entering new markets and geographies, and capitalizing on economies of scale among others. The synergistic gains from M&As may result from more efficient management, more profitable use of assets, exploitation of market power, and use of complementary resources.

5. Financial performance is the most influential variable in determining the growth of firms through M&As. Other parameters adopted in measuring a firm's growth include market shares, sales, and stock market index. The study also assesses the effect of M &As on employment, which is in line with the government agenda under the Fourth Medium Term Plan (MTP IV) 2023-2027, which emphasizes job creation.

6. The motives behind M&As are to maximize efficiency through economies of scale, increase market share and revenues, minimize tax liabilities, achieve synergy effects, geographical expansion, and access to innovative capabilities thus reducing the risks associated with the development of a new product or service and reshaping of a firm's competitive scope (Jagongo & Ombaka, 2018; Birkinshaw et al., 2000; Vaara, 2002). Other reasons put forward for M &As include a short-term solution to financial problems that companies face due to information asymmetries (Jagongo & Ombaka, 2018), and revitalizing the company by bringing in new knowledge to foster long-term survival (Vermeulen and Bakerma, 2001).

7. The manufacturing sector in Kenya employed 330,000 employees in the private sector in 2022, up from 314,000 in 2021, and 23,000 in the public sector from 23,300 in 2021. Total wage payments in the sector hit KES 203. 6 billion, up from KES 178 billion. The sector had a share of the Gross Domestic Product (GDP) of 7.8% in 2022. The value of output increased by 17.6% to KES 2.7 trillion in the year under review[3]. Manufacturing also opens avenues for new ventures by creating strong value chains to support main production. SMEs are a crucial part of manufacturing in Kenya, due to their role in creating employment and bringing about innovation in the sector[4].

8. The MSME sector constitutes 15 million out of the 18 million of the Kenyan workforce. Presently, it is absorbing 9 out of 10 of the young people joining the workforce, 750,000 on average, while the formal wage corporate economy barely absorbs 50,000. Kenya National Bureau of Statistics (KNBS) data shows that when properly established, MSMEs contribute significantly to the economy, generating an operating surplus per worker of over KES 600,000 a year. The Central Bank of Kenya (CBK) National Economic Survey report of 2017 indicated

[3] https://www.standardmedia.co.ke/business/business/article/2001472207/manufacturing-sector-posts-growth-far-below-10-per-cent-target#:~:text=The%20manufacturing%20sector%20employed%20330%2C000,6%20billion%2C%20up%20from%20Sh178.

[4] https://kam.co.ke/smes-critical-in-attaining-manufacturing-dream/

that SMEs constituted 98% of all businesses in Kenya, created 30% of the jobs annually, and contributed 3% of the GDP[5].

9. According to the KNBS Economic Survey, 2017, the MSME sector in Kenya has over the years been recognized for its role in the provision of goods and services, enhancement of competition, promotion of innovation, generation of employment, and in effect, the alleviation of poverty. Additionally, the Bottom Up Economic Transformation Agenda envisaged the MSME sector to be a catalyst in the creation of employment and source of livelihood opportunities specifically for the poor and the marginalized groups. The crucial role of MSMEs is underscored in Kenya's Vision 2030, which is the development blueprint that seeks to transform Kenya into an industrialized middle-income country, providing a high-quality life to all its citizens by the year 2030. The MSME sector has been identified and prioritized as a key growth driver for the achievement of the development blueprint.

10. It is also noteworthy that the drafting of many competition laws has *de minimis* provisions that must be applied as they may directly or indirectly ensure that MSMEs/SMEs are not overly burdened with regulatory processes. *De minimis* doctrine is entrenched in the European competition law system whereby matters involving enterprises with less than 10% market share are not considered to have an appreciable effect on competition

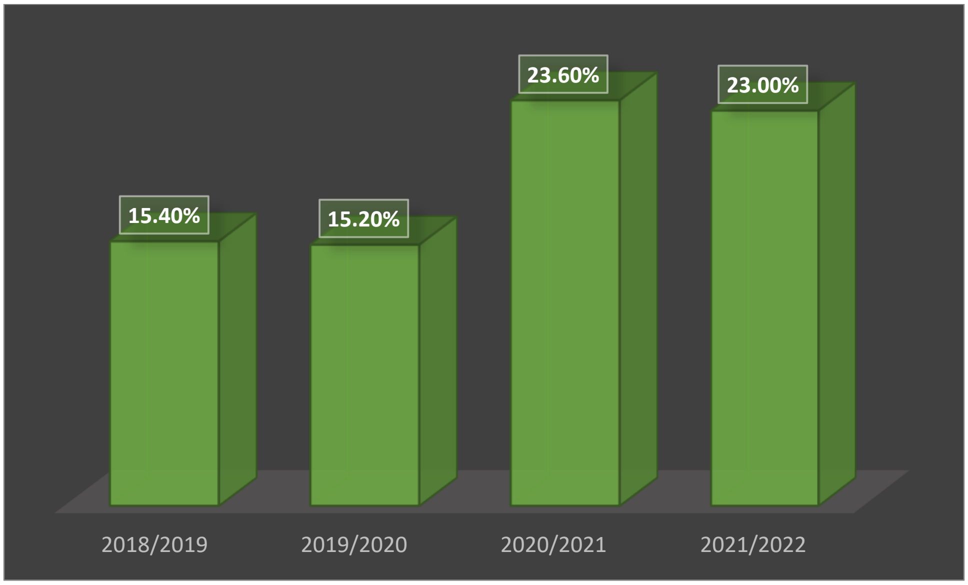
11. The manufacturing sector contributed 7.2% to the GDP in 2021. The Kenya Vision 2030 aims to transform Kenya into a newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment. The Authority plays a pivotal role in the implementation of the Big 4 Agenda within the confines of the Act.

12. Specifically, the labour and employment enabler of the MTP IV has emphasized the Kenya Youth Employment Opportunities project. Additionally, the study will look at the performance of the manufacturing sector in terms of the effects of M &A approvals on production capacity/output, prices of the affected products, and growth of MSMEs.

13. Over the years under review, the Authority has paid special attention to transactions that are likely to promote, directly or indirectly, the manufacturing sector in Kenya. Figure 1 below shows the number of notifications received from the manufacturing sector.

[5] https://kam.co.ke/smes-critical-in-attaining-manufacturing-dream/

Figure 1: Trends in Merger Notifications in the Manufacturing Sector between FY 2018/2019 and FY 2021/2022



14. As illustrated above, the manufacturing sector has been receiving more and more notifications since the revision of merger thresholds. This informs why this study is vital in assessing how mergers involving players in the manufacturing sector have benefitted from exclusions and whether there is a need to revise the thresholds further to exclude all MSMEs from notification. In alignment with the Government's agenda to focus on transforming the Micro, Small, and Medium Enterprise (MSME) economy, this study examined the impact of mergers in the manufacturing sector especially MSMEs.

15. The Authority has been keen on supporting MSMEs in the country both through the public interest assessment of merger transactions and through thresholds for notifiable mergers. The enactment of the Competition (General) Rule, 2019 ('the Rules') saw the revision of the Merger Threshold Guidelines which excluded mergers involving undertakings with a combined value of assets/turnover of between zero (0) and five hundred million (500,000,000) from notification. Further, mergers involving undertakings with a combined value of assets/turnover of between five hundred million and one (500,000,001) and one billion (1,000,000,000) are excluded transactions requiring approval of the Authority for which no filing fee is paid.

16. Previously, mergers whose combined value of assets and turnover were below KES 100,000,000 were the only ones that were excluded from notification and from paying merger filing fees. This was geared towards reducing the regulatory burden on MSMEs thereby

saving them money and time that they would otherwise use engaging with Authority on M &A activities.

17. The Authority's commitment to supporting MSMEs in the economy has been captured in the budget policy for FY 2023/24. The Cabinet Secretary for the National Treasury and Economic Planning, while presenting the budget policy highlights and revenue-raising measures for the financial year 2023/24 budget to the National Assembly on 15th June 2023, noted that to ease the cost of doing business and minimize compliance costs for MSMEs, the Authority will among other things, exempt MSMEs sector from merger notifications thus, enabling start-ups, digital businesses, among others. The CS further indicated that the Authority will monitor and conduct surveillance audits specifically, in the manufacturing and agro-processing sectors, to protect MSMEs from incidences of abuse of buyer power.

18. Under its current Strategic Plan 2022/2025, the Authority has committed to a number of things that will help it achieve its strategic goal of delivering effective enforcement. Among the strategic objectives, the Authority intends to enhance the merger analysis process to minimize the financial burden on businesses. This is in line with the Government's policy to ease the cost of doing business and minimize compliance costs for MSMEs.

19. Additionally, under the current Performance Contract, the Authority proposes a review and amendment of Merger Threshold and Competition (General) Rules, 2019 ("the Rules"). The proposed amendment of the Rules was informed by stakeholder feedback and emerging best practice tenets on merger thresholds since 2019, the time when the Act was amended and Rules developed. The amendment will incorporate the Authority's experience in its analysis of mergers and other processes.

20. For the Authority to chart the best way forward in supporting MSMEs in line with the obligations above, it is imperative that this study evaluates whether the initiatives in place (i.e. exclusions in the Rules) have led to significant growth in the financial position of MSMEs post-merger and whether the current thresholds excludes all MSMEs from notification in line with the Government directive. Further, the study will seek to address whether the current public interest test in the assessment of mergers is sufficient to protect MSMEs.

21. The increase in the number of exclusions not required to notify the Authority of merger activity illustrates the Authority's attempt to reduce of regulatory burden for SMEs. This also illustrates the Authority's attempt to support the MSME sector in Kenya. It is vital that this study evaluates whether this initiative has led to significant growth in the financial position

of the post-merged entities, resulting from these exclusions and whether the current thresholds exclude all MSMEs from notification in line with the Government directive.

22. Further, the study seeks to determine whether the current public interest test in the assessment of mergers is sufficient to protect MSMEs. This is also informed by the increased cases of MSMEs lodging complaints with the Authority for delayed payments in cases involving mergers approved by the Authority.

23. There are inconclusive results in the literature on the consequences of M&As on; the overall financial performance of an entity, the prices of the entity, the production/output of the entity's products, the entity's employment, and the growth or financial performance of SMEs. This study aims to synthesize and analyze prior literature on M&As and their effects on the manufacturing sector's performance in an attempt to determine the effect of post-merged M&As on financial performance, output, prices, employment, and MSMEs. Specifically, this study will look at the following variables under MSMEs; any changes in financial performance of previously excluded mergers for the past 5 years, any reduction of cost of doing business (costs), any better prices of goods resulting from M &As, any increased output/production, and any increase or decrease of employment by SMEs.

24. The Kenyan manufacturing sector has witnessed several M&As in the recent past. We expect the number of mergers in the manufacturing industry to increase in the coming years. In this regard, it is imperative to conduct research to establish the impact of these mergers in the manufacturing sector.

1.2 Objectives of the Study

25. The general objective of the study was to examine the effect of mergers and acquisitions on the performance of the manufacturing sector in Kenya. The specific objectives include:
    i. To assess the effect of M&As, including MSMEs, in the manufacturing sector on the financial performance of the post-merger entities;
    ii. To determine how M&As, including MSMEs, in the manufacturing sector have affected the prices of relevant products of the post-merged entities;
    iii. To identify how M&As, including MSMEs, in the manufacturing sector, have affected the production capacity/output of the post-merged entities;
    iv. To establish how the M&As in the manufacturing sector have affected employment;
    v. To ascertain whether revision of merger thresholds has led to reduction of merger transactional costs, enabled MSMEs to consolidate more easily and become effective competitors in the manufacturing sector post-merger;

vi. To assess whether the revision of merger thresholds has led to enhanced profitability for MSMEs in the manufacturing sector; and

vii. To establish if the Public Interest Test (PIT) has been effective in ensuring M&As in the manufacturing sector are considerate of MSMEs concerns other than employment.

1.3 Limitations of the Study and Scope

26. The study is limited to the manufacturing sector in Kenya with a focus on undertaking which the Authority had approved mergers covering the period between the years 2012 to 2022. Sectors of five sectors namely: edible oils sector, chemicals sector, beverage production and processing, food manufacturing, and cement sectors in Kenya. Counties covered by the study were Nairobi, Mombasa, Kiambu, Nyeri, Muranga, Nakuru, Machakos, Laikipia, Kisumu, Kericho, Uashin Gishu, Meru, Migori and Kisii counties.

27. The following challenges were encountered during the study; difficulty obtaining data and securing an audience with the appropriate representative of the respondents.

1.4 Organization of the study

28. The rest of the study is organized as follows; section two presents the methodology while the findings are presented in section three. The summary of conclusions and recommendations is detailed in section four.

2.0. METHODOLOGY

29. The section provides the methodology adopted in conducting the study. It entails a description of the research design, study population, sampling procedures, data collection techniques, and study respondents.

2.1 Research Design

30. This study used a descriptive survey research design which permitted the administration of the survey to a sample drawn from the population with intent the of obtaining quantitative data regarding their attitudes, opinions, and characteristics. The study gathered data on opinions and attitudes from merged entities and their competitors in the manufacturing sector.
31. The design made it possible to obtain relevant information on how merger approvals in the manufacturing sector affected financial performance, prices, production capacity, and employment of merged entities. Further, the research design facilitated in addressing the objective of whether; revision of merger thresholds has enabled MSMEs to consolidate more easily and become effective competitors, whether revision of the merger threshold led to reduction of transactional costs and resulted in enhanced profitability, and whether the Public Interest Test has been effective in ensuring M&As in the manufacturing sector are considerate of MSMEs concerns other than employment.

2.2 Population of the Study

32. The population targeted were all the entities in the manufacturing sector in Kenya, with a special focus on the players for whom the Authority had approved mergers. A sample of sixty-five (65) entities were targeted. Out of these, forty (40) were interviewed, thirteen (13) were either not located or fell outside the scope (i.e. not manufacturers), whereas twelve (12) were not willing to engage the team. The engagement rate was 81.5% as enumerated in Table 1.

Table 1: Summary of Engagement with Respondents

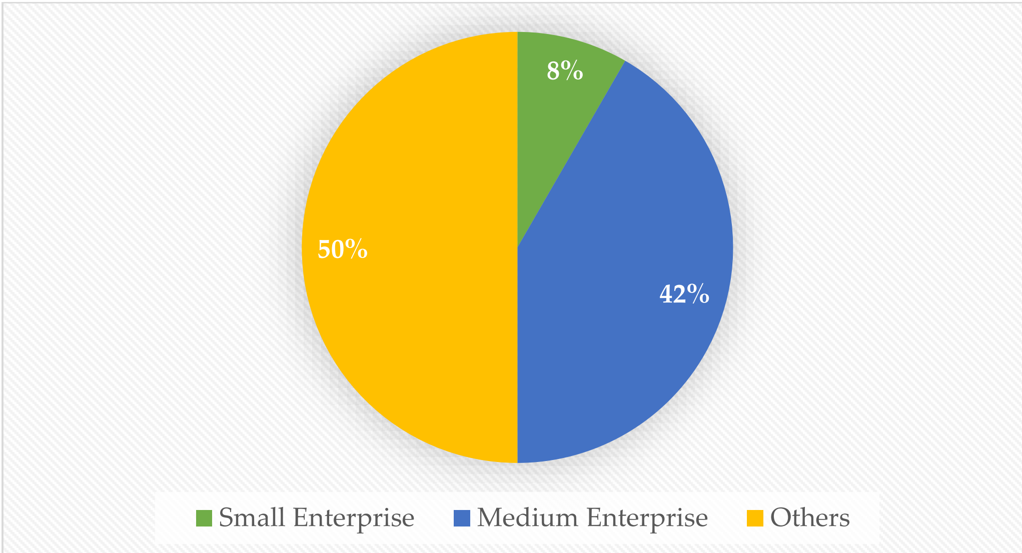
Targeted respondents	Number interviewed	Percentage Interviewed
60	40 (62)	62%

33. In Kenya Micro, Small and Medium Enterprises (MSMEs are categorized as follows;

    i) Micro business enterprises are entities that employ less than 10 employees,
    ii) Small business enterprises that have between 10 and 49 employees and
    iii) Medium business enterprises have between 50 and 99 employees.

34. Figure 2 shows the classification of the respondents by size of enterprise.

Figure 2: Classification of respondents by size of enterprise



35. Out of the targeted undertakings, 8.33% were small enterprises, 41.67% of medium enterprises, and 50% of large companies that fell under others. The parties interviewed made such classification by considering factors such as the Kenya Revenue Authority report office while some considered their turnover and assets figures.

2.3 Sampling Technique

36. This research used purposive sampling as it was the most appropriate technique to select respondents for this study from the aforementioned sectors. In this type of sampling also known as deliberate sampling, the sample was selected according to the purpose of the study (Bhardwaj, 2019, p.161).

37. Kothari (2004) recommends that at least 10% size sample allows for reliable data analysis. Babbie (2005) recommends a sample size of between 10% to 30% when undertaking descriptive studies. Consequently, 65 companies were selected for this research as our sample as illustrated in table 1.

2.4 Data Collection Tool

38. This study used structured questionnaire to collect primary data from sampled respondents post merged. Face to face interview was employed in collecting the data. The questionnaires comprised of closed ended and open-ended questions which facilitated collection of both quantitative as well as qualitative data from respondents.

2.5 Data Collection Procedure

39. The survey was through physically administered questionnaires and the procedure entailed visiting the sampled enterprises that were subject to merger approvals by the Authority.

40. Participants were assured of the confidentiality of their data. Survey data was sent via email and confidentiality claim forms were administered to respondents. Respondents were later granted confidentiality under Section 20 of the Act. Access to Survey data was only shared with the mergers and acquisitions department and the research department for analysis and report writing.

2.6 Data Analysis

41. This study used descriptive statistics to determine the opinions of enterprises regarding the effects of merger approvals on financial performance, prices, output, and employment. Data was analyzed descriptively through frequency distribution tables, percentages, and measures of central tendency. Appropriate inferences were provided. Collected data was analyzed using SPSS[6] Version 26 and findings are presented in graphs, charts, and tables and appropriate inferences are provided.

2.7 Description of Respondents

42. Respondents in the study were described with respect to the nature of shareholding, nature of directorship, type of product manufactured, and size of enterprise

2.7.1 Classification of respondents by size of firm

43. The study was categorized by their sizes interms of micro, small, medium and large enterprizes. Table 2 details the results of the analysis.

Table 1: Classification of respondents by size of the firm

Size of Enterprises	Percentage
Small	8.3
Medium	41.7
Large enterprises	50
Total	**100**

44. Table 2 indicates that 8.3% of the respondents were small, while 41.7% were medium enterprises. The large enterprises were however 50% of the respondents. This is a

[6]Nairobi, Mombasa, Kiambu, Nyeri, Muranga, Nakuru, Mombasa, Machakos, Laikipia, Kisumu, Kericho, Bungoma, Trans-Nzoia, Uashin Gishu, Meru, Kisii

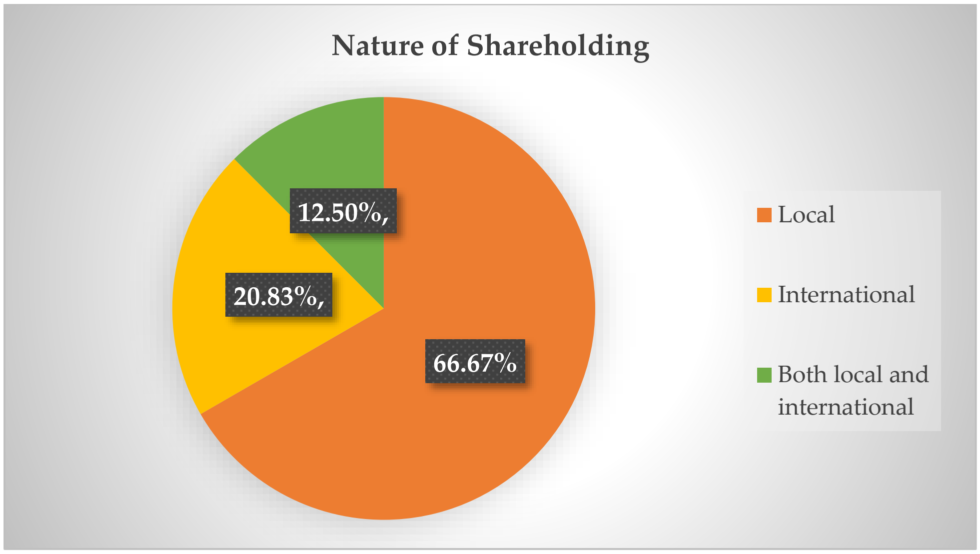
[2] Statistical Package for the Social Sciences

confirmation that the target respondents were appropriate for the study founded on the fact that the study focused on MSMEs.

2.7.2 Classification of Respondents by Nature of Shareholding

45. The respondents were analyzed by nature of shareholding and the output presented in Figure 3.

Figure 3: Classification of respondents by nature of shareholding



46. Figure 3 illustrates that 66.67% of the respondents had local shareholding during the time of the study while 20.83% had international shareholding and 12.50% had both local and international shareholding. The majority of the entities interviewed therefore had local shareholding.

2.7.3 Classification of Respondents by Nature of Directorship

47. Additionally, the study classified the respondents by the nature of shareholding. This has been detailed in Figure 4.

Figure 4: Classification of respondents by Nature of directorship

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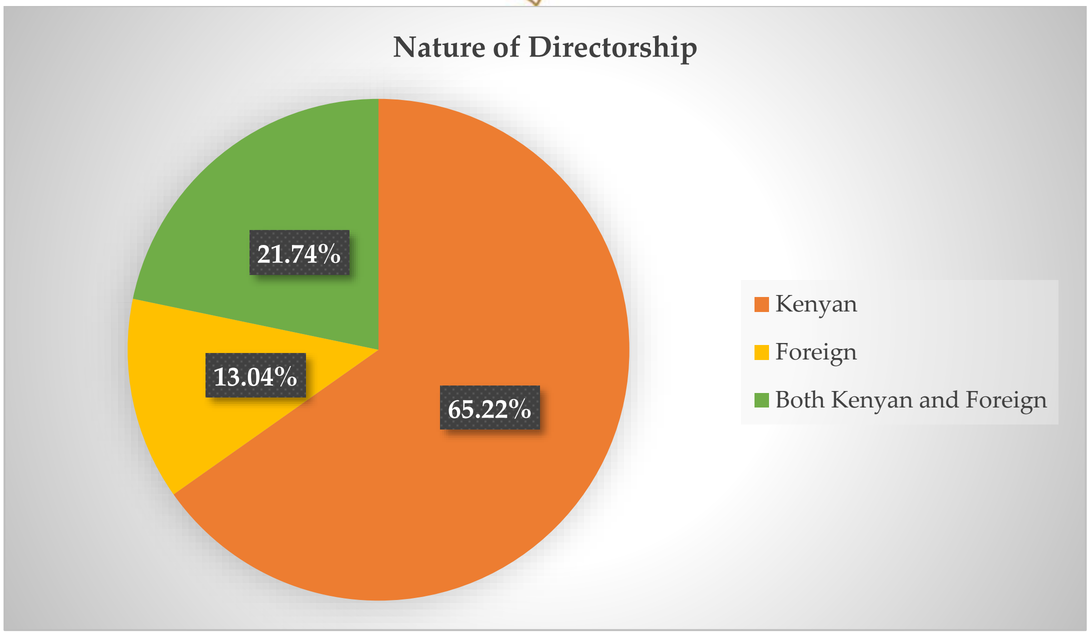


48. According to Figure 4, 65.2% of the respondents had Kenyan directorship, while 13% had foreign directorship. However, 21.74% were the respondents had both Kenya and foreign directorship. This indicates that the entities interviewed during the study were mainly Kenyan, a confirmation that they were the appropriate target respondents for the study, whose focus was MSMEs.

2.7.4 Categorization of Respondents by Product Type.

49. Lastly, respondents were categorized according to the product type that they manufactured. Table 3 below is a presentation of the analysis output.

Table 2: Categorization of respondents by type of product manufactured

Type of product manufactured

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Food	6	23.1	24.0	24.0
	Beverages	1	3.8	4.0	28.0
	Sugar Products	3	11.5	12.0	40.0
	Confectionary	1	3.8	4.0	44.0
	Chemical	4	15.4	16.0	60.0
	Construction materials	2	7.7	8.0	68.0
	Others	8	30.8	32.0	100.0
	Total	25	96.2	100.0	
Missing	System	1	3.8		
Total		26	100.0		

Table 3 indicates that 24% of the respondents manufactured food products, while 16% manufactured chemical products. Respondents who manufactured sugar, construction, and confectionary were 12%, 8%, and 4% respectively. Those who manufactured beverages were 4%, whereas those who manufactured other products were 32%.

3.0. FINDINGS FROM THE FIELD

3.1. Effect of M &As in the manufacturing sector on the financial performance of the post-merger entities

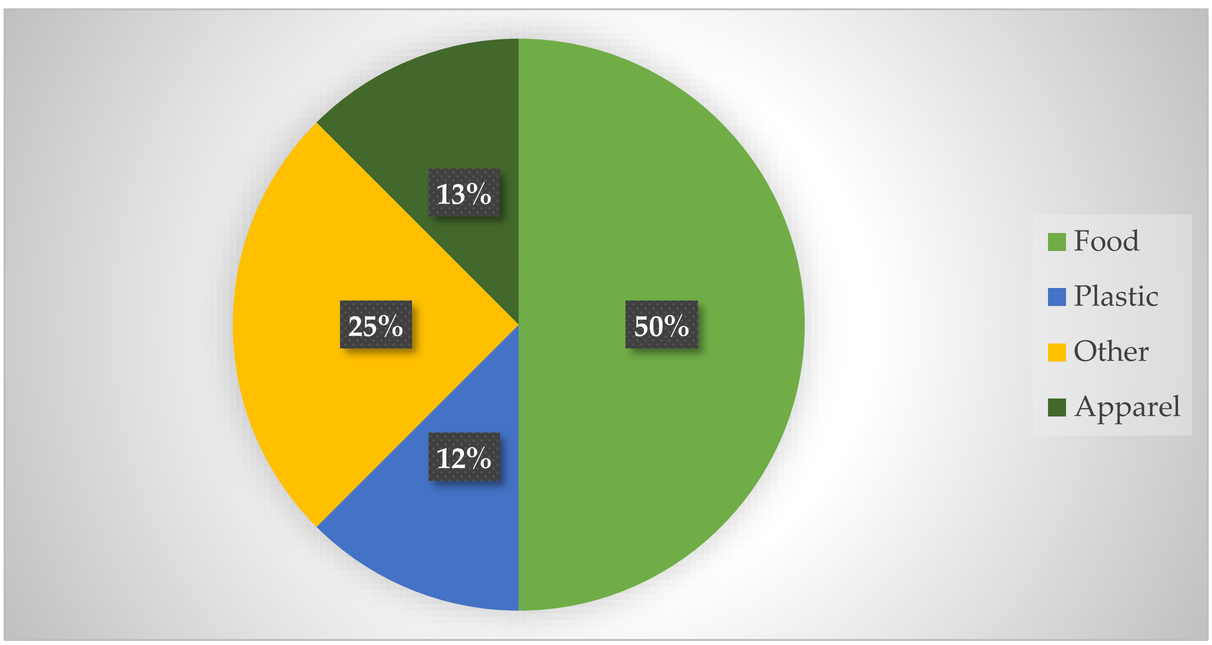
50. This section presents an analysis of the effect of mergers and acquisitions on the financial performance of entities in the manufacturing sector. In analyzing the objective, the study examines the revenue generated and production costs of entities in the sector that have been subject to merger transactions.

51. The study sought to establish whether the merged entities' financial performance improved post-merger.

3.1.1 Financial Performance by Sub sectors

52. Figure 5 below, presents an analysis of responses by sub-sectors.

Figure 5: Respondents to financial performance by product type manufactured

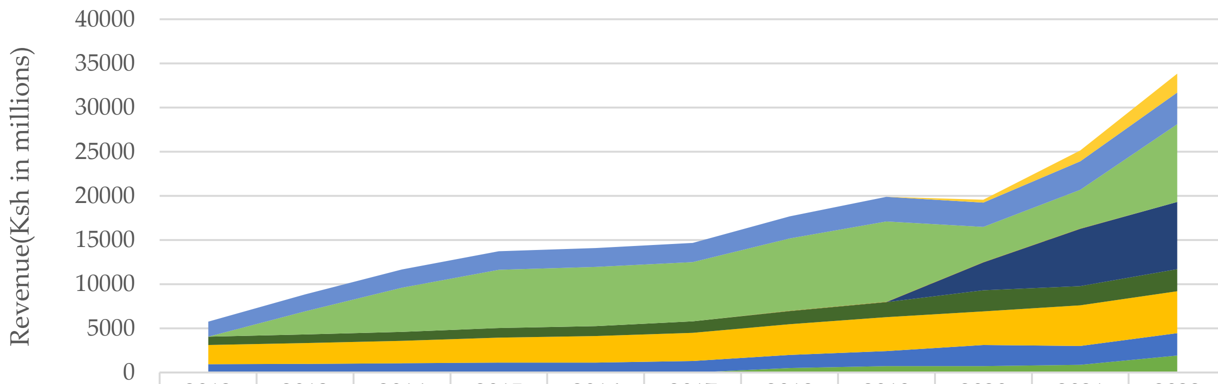


53. According to Figure 5, 50% of the respondents whose financial performance was analyzed were from the food sub-sector, 13% from apparel, and 12% from plastic. The financial performance for other sub-sectors (cables, chemicals) was also analyzed which accounted for 25%.

3.1.2 Revenues Generated and Production Costs by merged entities

54. The section analyses the revenue generated and cost of production by the merged entities from 2012 to 2022. Figure 6 details an analysis of revenue generated by merged entities.

Figure 6: Revenue Generated by Respondents between 2012-2022 in millions (KES)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Kenblest									315	1,250	2,160
Kansai	1,705	1,924	2,073	2,104	2,149	2,177	2,514	2,808	2,761	3,206	3,586
Juja Pulp		2,600	5,000	6,600	6,700	6,700	8,200	9,100	4,000	4,400	8,800
Hela							10.0	12.2	22.3	18.9	
Devki									3,150	6,500	7,600
Sukari	918	981	1,041	1,103	1,131	1,315	1,488	1,703	2,405	2,164	2,510
Blowplast	2,201	2,358	2,523	2,826	2,987	3,165	3,476	3,856	3,779	4,594	4,758
Trufoods	918	981	1,042	1,103	1,131	1,315	1,488	1,703	2,405	2,164	2,510
Kensalrise							515	716	721	850	1,923

Years

55. According to Figure 6, the revenue for Kenblest post-merger increased from KES 1250 M in 2021 to KES 2160 M in 2022, two years after the approval of the merger in 2020. Similarly, revenue for Kansai Plascon increased from KES 2514 M in 2018 to KES 3586 M in 2022, after the approval of the merger in 2017. Further, the revenue for Devki post-merger increased from KES 3150 M in 2020 to KES 7600 M in 2022, following the approval in 2019. Sukari Industries Ltd witnessed an upward trend in revenue post-merger from KES 981M to 2510 M between 2013 and 2022 respectively following the approval of the merger in 2012. For Blowplast, its revenue increased from KES 3476M to KES 4758 M in 2022, following the merger approval in 2017. Equally, Trufoods depicted an upward trajectory in its revenue from KES 2405 M to KES 2510 M between 2020 and 2022, following the approval of the merger. Likewise, the revenue

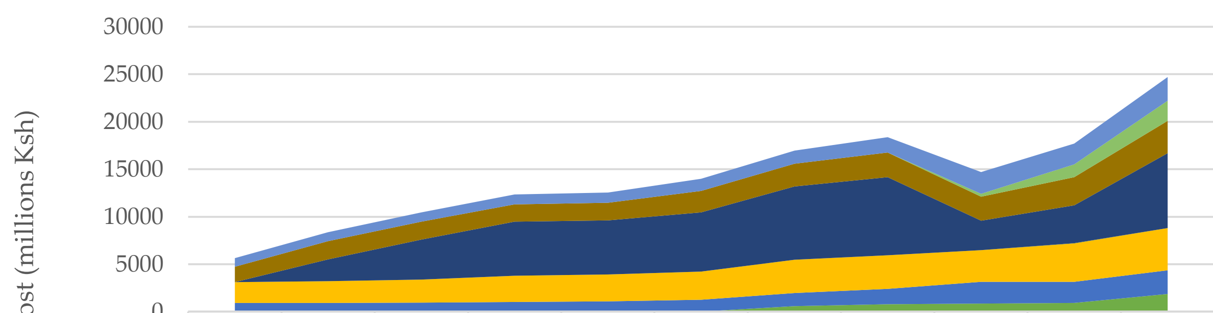
for Kensalrise increased from KES 721M in 2020 to KES 1923 M in 2022, following the implementation of the merger in 2019. This illustrates that almost all of the respondents registered positive growth in revenue post-merger.

56. However, this positive impact on financial performance may not be exclusively attributed to the merger transactions. It is noted that while all the respondents in the food manufacturing sub-sector registered revenue growth in 2020 during the COVID-19 pandemic, most of the manufacturers of non-food products, such as Blowplast, Juja Pulp & Paper, and Kansai Plascon experienced a revenue dip. This may be attributed to the interruption of production activities that was experienced during the pandemic for non-essential products and services.

3.1.3 Production Costs of merged entities

57. Correspondingly, the study analyzed the production cost of merged entities between 2012 and 2022. Figure 7 shows the output of the analysis.

Figure 7: Production cost for merged entities from 2012 to 2022 in millions (KES)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sukari	934	940	968	1029	1089	1262	1381	1617	2283	2208	2507
Kenblest									304	1340	2100
Kansai	1584	1924	1893	1840	1858	2279	2402	2616	2520	2949	3406
Juja Pulp		2300	4200	5700	5700	6200	7700	8200	3100	4000	7900
Hela							14.9	17	13	18.8	
Blowplast	2196	2259	2420	2742	2817	2977	3501	3531	3333	4058	4434
Trufoods	934	940	968	1029	1090	1263	1382	1618	2283	2208	2507
Kensalrise							583	784	851	924	1851

Kensalrise Trufoods Blowplast Hela Juja Pulp Kansai Kenblest Sukari

58. According to Figure 7, the total production cost for Kenblest post-merger increased from KES 1340 M in 2021 to KES 2100 M in 2022, two years after the approval of the merger in 2020.

Similarly, the production cost for Kansai Plascon increased from KES 2402 M in 2018 to KES 3406 M in 2022, after the approval of the merger in 2017. Further, Sukari Industries Ltd witnessed an upward trend in production cost post-merger from KES 940 M to 2507 M between 2013 and 2022 respectively following the approval of the merger in 2012. For Blowplast, its production cost increased from KES 3501M to KES 4434 M in 2022, following the merger approval in 2017. Equally, Trufoods depicted an upward trajectory in its production cost from KES 2283 M to KES 2507 M between 2020 and 2022, following the approval of the merger in 2019. Likewise, the production cost for Kensalrise increased from KES 851M in 2020 to KES 1851 M in 2022, following the implementation of the merger in 2019. Generally, there was an increase in the total cost of production in all undertakings.

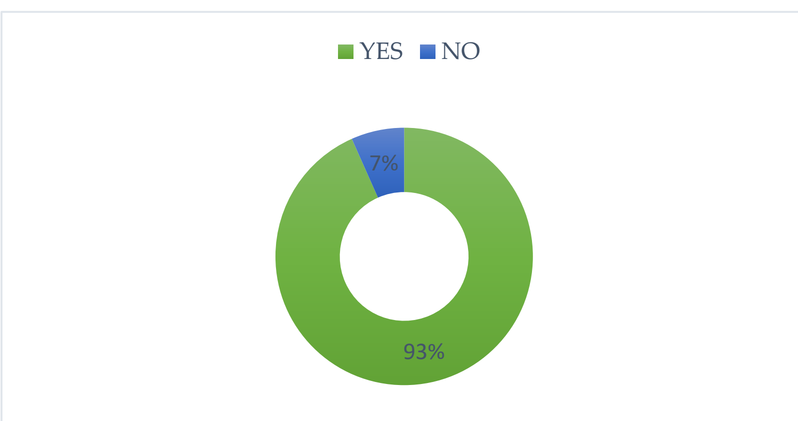
59. However, the trend was interrupted in the year 2020 when some undertakings such as Kansai Plascon, Juja Pulp, Hela, and Blowplast experienced a reduction in the cost of production. According to the respondents, the decrease in production cost may be attributed to a slowdown in manufacturing activities due to the COVID-19 pandemic where some undertakings even closed down temporarily. All the undertakings that experienced interruptions are in the non-food-based manufacturing sub-sectors.

60. From the analysis, the study finds that the production cost of most of the merged entities increased post-merger. This implies that as much as the merged entities witnessed an increase in production costs, the revenues also increased.

3.1.4 Impact of merger transaction on merged entities

61. The study equally analyzed whether the merger transaction had a positive impact on their businesses post-transaction. Figure 8 shows an analysis of the responses received.

Figure 8: Merger had a positive impact on the business



62. From Figure 8, 93% of the respondents indicated that the merger had a positive impact on their business. Some of the contributions of the merger activity to business that were noted included innovation and efficiency, increased sales, increased domestic market share, increased production capacity, increased asset base, introduction of new products, and improved corporate governance all of which led to increased turnover. Only 7% of the respondents reported that the mergers did not have a positive impact on their businesses. This may be attributed to changes in market dynamics and increased competition which in some cases, resulted in the closure of the business of the merged entities. For instance, Nampak Holdings Limited which produces packaging materials indicated that loss of clientele and competition from paper and plastic packaging material producers resulted in the closure of the businesses of Bullpack Limited and Elopak.A.s., entities it had acquired in 2014 and 2021 respectively. In conclusion, it can be deduced that the mergers had a positive impact on the merged entities. This is reinforced by the findings on revenue performance which increased post-merger.

3.1.5 Financial Performance across Directorship, Nature of Shareholding, and Classification of merged entities

63. Further, the study analyzed the financial performance of merged entities based on nationality of directorship, nature of shareholding, and size of the firm. Table 4 details the outcome of the analysis.

Table 3: Profile of the Respondents on Financial Performance

Company	Directorship (Nationality)		Shareholding (Nationality)		Classification of Enterprise (SME)			
	Kenyan	Non-Kenyan	Kenyan	Non-Kenyan	Micro	Small	Medium	Large
Kensalrise	100%		100%				✓	
Trufoods	100%		100%				✓	
Blowplast	43%	57%	86%	14%				✓
Devki	50%	50%	100%					✓
Hela		100%		100%			✓	
Juja Pulp	100%		100%				✓	
Kansai		100%		100%				✓
Kenblest	100%		100%				✓	

64. Table 4 demonstrates that post-merger, all merged entities experienced improved financial performance irrespective of their size and nature of shareholding and the nationality of their directors.

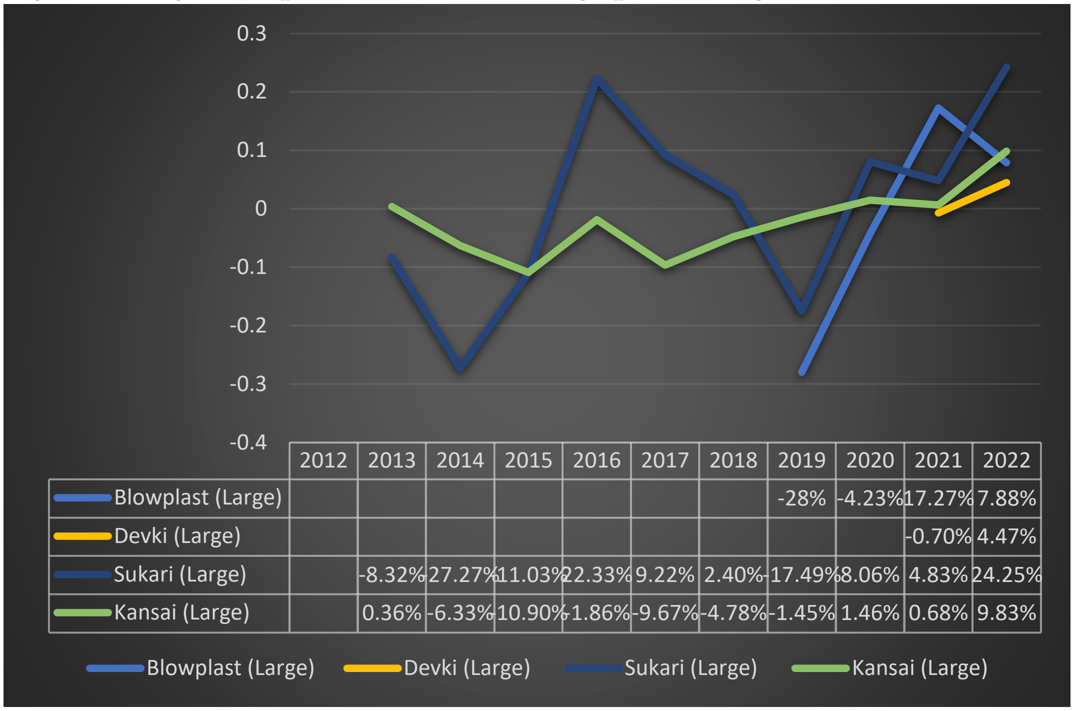
3.2. Effect of M &As in the manufacturing sector on the prices of relevant products of the post-merged entities

65. This sub-section analyses the effect of mergers and acquisitions on the prices of relevant products of the merged entities in the manufacturing sector. In analyzing the objective, the study examines the trends in prices of the relevant products.

3.2.1 Price Changes Compared with Size of Companies

66. The study analyzed price changes for merged undertakings by their size. Figures 9, 10, and 11 present the output of the analysis.

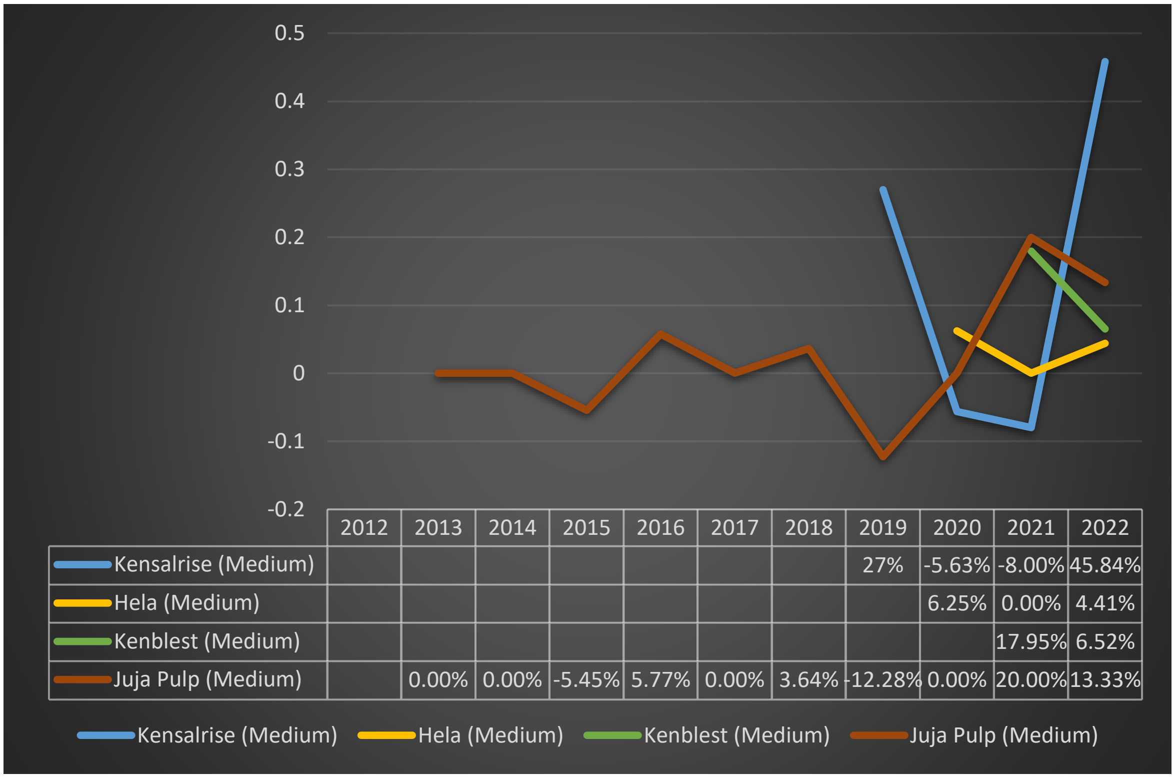
Figure 9: Large Enterprises versus Percentage price changes



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Blowplast (Large)								-28%	-4.23%	17.27%	7.88%
Devki (Large)										-0.70%	4.47%
Sukari (Large)		-8.32%	27.27%	11.03%	22.33%	9.22%	2.40%	-17.49%	8.06%	4.83%	24.25%
Kansai (Large)		0.36%	-6.33%	10.90%	-1.86%	-9.67%	-4.78%	-1.45%	1.46%	0.68%	9.83%

Figure 9 illustrates that among the large enterprises, Sukari Industries Limited registered the highest price increase of 24.25% in 2022 while Blowplast registered the highest price reduction of -28% in 2019 post-merger

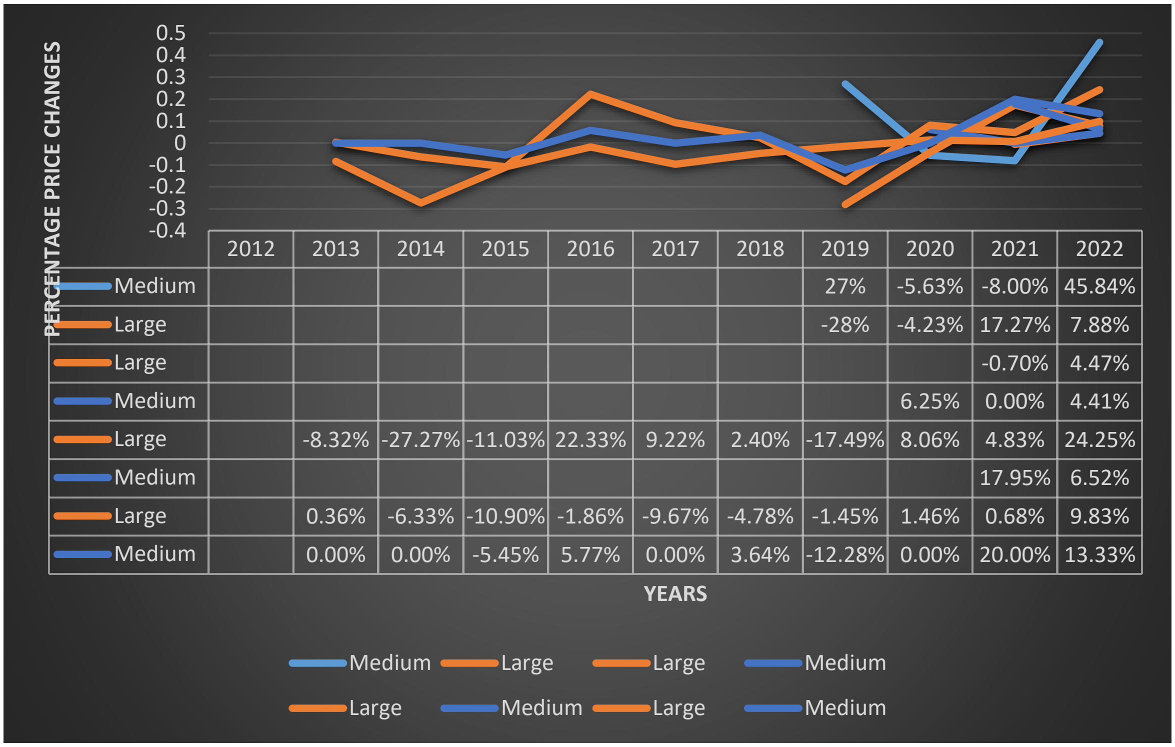
Figure 10: Medium Enterprises versus Percentage price changes



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Kensalrise (Medium)								27%	-5.63%	-8.00%	45.84%
Hela (Medium)									6.25%	0.00%	4.41%
Kenblest (Medium)										17.95%	6.52%
Juja Pulp (Medium)		0.00%	0.00%	-5.45%	5.77%	0.00%	3.64%	-12.28%	0.00%	20.00%	13.33%

Figure 10 illustrates that among the medium enterprises, Kensalrise Limited registered the highest price increase of 45.84% in 2022 while Juja Pulp & Paper recorded the highest price reduction of -12.28% in 2019 post-merger.

Figure 11: Size of Companies versus Percentage price changes



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Medium								27%	-5.63%	-8.00%	45.84%
Large								-28%	-4.23%	17.27%	7.88%
Large										-0.70%	4.47%
Medium									6.25%	0.00%	4.41%
Large		-8.32%	-27.27%	-11.03%	22.33%	9.22%	2.40%	-17.49%	8.06%	4.83%	24.25%
Medium										17.95%	6.52%
Large		0.36%	-6.33%	-10.90%	-1.86%	-9.67%	-4.78%	-1.45%	1.46%	0.68%	9.83%
Medium		0.00%	0.00%	-5.45%	5.77%	0.00%	3.64%	-12.28%	0.00%	20.00%	13.33%

67. Figures 9, 10, and 11 illustrate that medium enterprises (Kensalrise, Hela, Kenblest, and Juja Pulp) increased their price levels more than large enterprises registering the highest price increase of 45.84% as compared to 24.25% registered by large enterprises (Kansai, Blowplast, Devki and Sukari Industries) post-merger. On the other hand, large enterprises seem to reduce their price levels more than medium enterprises, post-merger as evidenced by the price reduction of -27.27% and -28% in the years 2014 and 2019 respectively for large enterprises compared to the -12.28% and -8% reduction observed for the medium enterprises in 2019.

68. This therefore implies that large enterprises may be benefiting more from efficiencies and economies of scale and scope post-merger compared to the Medium enterprises. Thus, large enterprises are able to extend these benefits to consumers through price reductions.

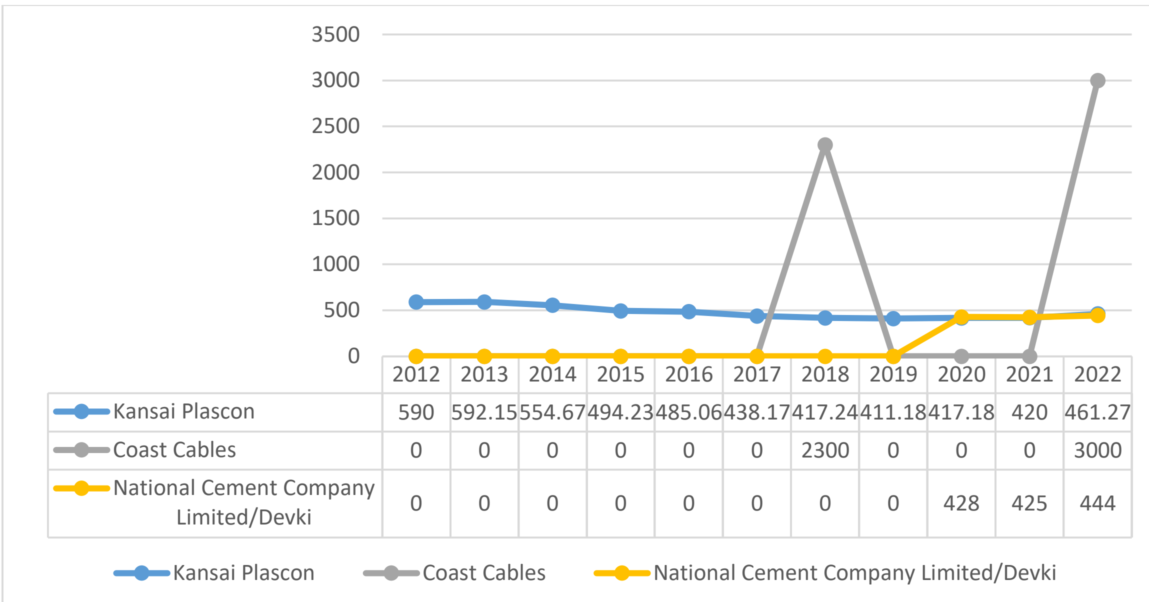
3.2.2 Price Trends by Product Type

69. Since products in the manufacturing sector are not homogenous, changes in price vary based on the different product types. In light of this, the study has conducted price trend analysis by product type.

3.2.2.1 Construction Sub-sector

70. Changes in prices in the building and construction product market may be attributed to several factors such as increases in energy costs, underutilization of the manufacturing capacity hence unmatched supply and demand, market concentration, and regulatory challenges among others. Figure 3.6 depicts the price trend of various players in the building and construction manufacturing sub-section.

Figure 12: Price Trends for the Building and Construction Market



71. Figure 12 illustrates that for Kansai Plascon, the price reached an all-time high of KES 592.15 per unit for its fast-moving product quantity in 2013 and an all-time low of KES. 411.18 per unit of its fast-moving product in 2019. Kansai's merger transaction was approved in 2017. Therefore, it can be deduced that the merger had a positive impact on prices in the sector. However, after 2020, the prices of Kansai's products have been upward-sloping due to inflation, higher input prices, exchange rate fluctuations, and high crude oil prices, among others.

72. National Cement's prices depicted an upward projectile between 2020 and 2022; increasing from KES 428 to KES 444 per 50kg bag. The merger was approved in 2020. It is worth noting that the target was not operational before the merger. In as much as prices increased post-merger, this was not unique to the cement sub-sector during the same period due to factors such as the COVID-19 Pandemic that disrupted supply chains.

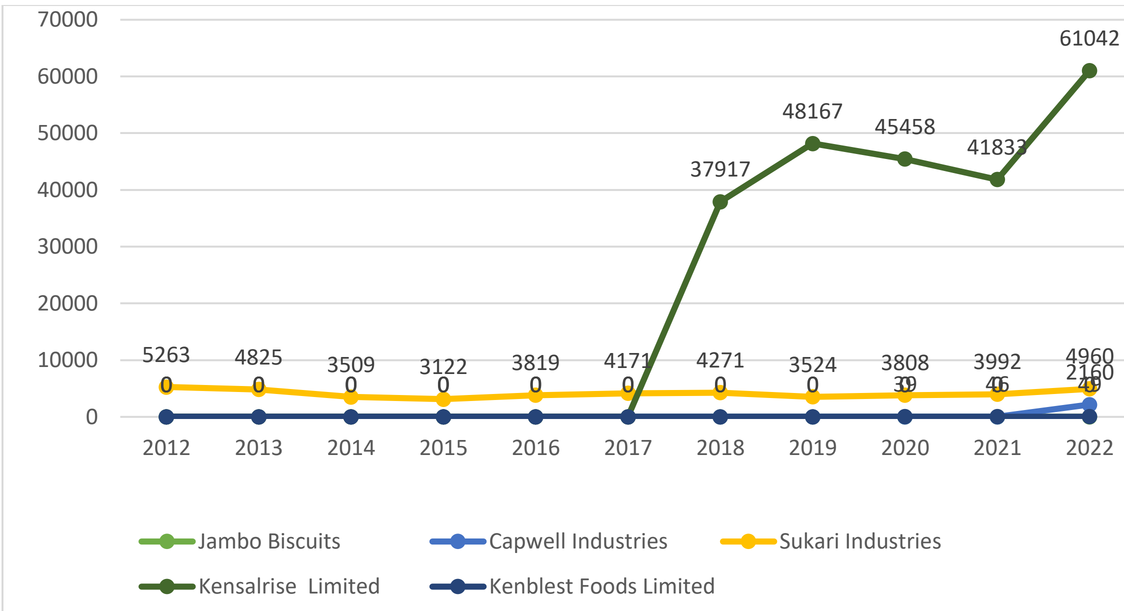
73. Coast Cables Limited's prices, on the other hand, reached an all-time low of KES 2,300 per 90-meter roll of cable in 2018 and an all-time high of KES. 3000 per roll of the same length in 2022.

The transaction was however approved in 2022, therefore, it was not possible to consider an analysis of price effects post-merger.

74. It can be concluded that due to other factors, it was hard to ascertain whether the mergers approved in the construction sub-sector had a positive impact on prices.

3.2.2.2 Price Trends for Food Products

Figure 13: Price trends for the food manufacturing market



75. According to Figure 13, the price of the fast-moving product quantity of Sukari Industries reached an all-time high of KES 5263 in 2012 and an all-time low of KES 3122 in 2015 post-merger (merger approved in 2014). This reduction in prices may be attributed to the merger approval. However, after 2015, prices increased till 2018 and declined between 2019 and 2020. Nonetheless, prices increased between 2020 and 2022. Generally, the sugar products' prices exhibited a cyclical trend post-merger. The study concludes that prices of sugar products are subject to seasonal dynamics such as changes in weather patterns, imports, and fluctuating exchange rates, among others.
76. Prices of the first moving product quantity of Kenblest increased from KES 39 in 2020 to KES 49 in 2022 (merger approved in 2017). This price increase can be attributable to increases in inflation and input costs as stated by Kenblest. Therefore, the witnessed price increase cannot be exclusively attributed to the merger approval
77. Similarly, there was a steep increase in the prices of Kensalrise's fast-moving quantity from KES 37917 per tonne in 2018 to 48167 per tonne in 2019 (the merger was approved in 2017). However, in 2020 the price declined to KES 45458 and further to KES 41833 in 2021 before

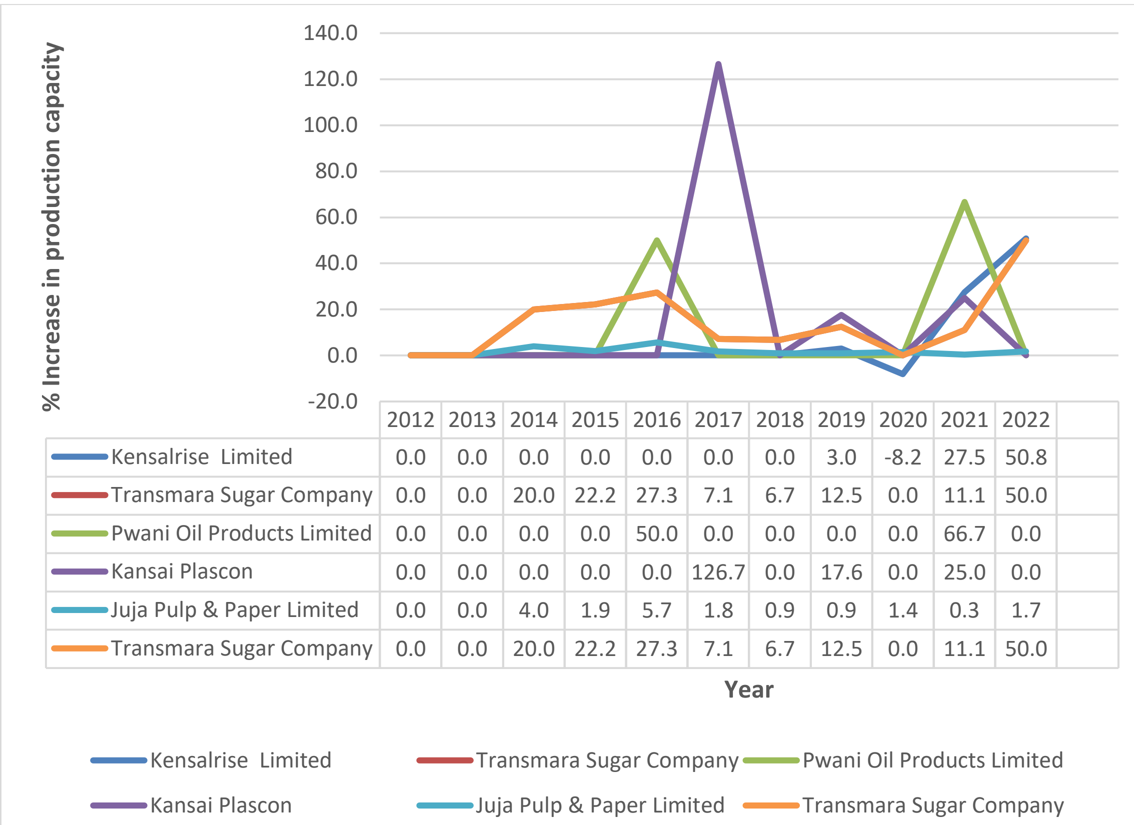
increasing to an all-time high of KES 61042 in 2022. The price increase was attributed to among others unstable prices of maize.

78. It can be concluded that due to other factors, it was hard to ascertain whether the mergers approved in the food sub-sector had a positive impact on prices.

3.3. Effects of M &A in the manufacturing sector on the production capacity/output of the post-merged entities

79. The section analyses the impact of M &As in the manufacturing sector on production capacity over the period from 2012 to 2022. In this respect, respondents were requested to provide data on their production capacity before and after merging. The output analysis of data from select manufacturing companies is presented in Fig. 3.8.

Figure 14: Percentage change in production capacity: 2012-2022



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Kensalrise Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	-8.2	27.5	50.8
Transmara Sugar Company	0.0	0.0	20.0	22.2	27.3	7.1	6.7	12.5	0.0	11.1	50.0
Pwani Oil Products Limited	0.0	0.0	0.0	0.0	50.0	0.0	0.0	0.0	0.0	66.7	0.0
Kansai Plascon	0.0	0.0	0.0	0.0	0.0	126.7	0.0	17.6	0.0	25.0	0.0
Juja Pulp & Paper Limited	0.0	0.0	4.0	1.9	5.7	1.8	0.9	0.9	1.4	0.3	1.7
Transmara Sugar Company	0.0	0.0	20.0	22.2	27.3	7.1	6.7	12.5	0.0	11.1	50.0

80. From figure. 14, the production capacity of Kensalrise Limited in 2019 had increased by 3% from the capacity in the year preceding the merger. After the approval of the merger in 2019, the production capacity decreased by 8.2% in 2020 before increasing by 27.5% and 50.8% in 2021 and 2022 respectively.

81. Similarly, for Transmara Sugar Company which was subject to a merger in 2015, the production capacity had increased by 22.2% from that of the preceding year. In 2016, it continued to increase by 27.3% and further increased marginally by 7.1%, 6.7%, and 12.5% in 2017, 2018, and 2019 respectively. In 2020, there was no change in the production capacity. The years 2021 and 2022 registered an increase of 11% and 50% correspondingly.

82. The production capacity for Pwani Oil Products Limited had remained unchanged since 2016 but increased by 66.7% in 2021, a year after the Authority approved the merger. However, during the year 2022, it did not register any change in the production capacity.

83. From Figure 14, the production capacity of Kansai Plascon did not change from 2012 to 2016. In 2017, the year that the merger was approved it rose by 126.7%, and a further 17.6% in 2019. The capacity remained unchanged in 2020 before increasing by 25% in 2021.

84. Juja Pulp registered the highest percentage increment of 5.7% in production capacity in 2016, a year before the merger. After approval of the merger in 2017, the capacity increased by 1.8%. After the merger, the production capacity increased at a declining rate to 1.7% in 2022. The decline in production capacity may be attributed to increased competition in the market. This was emphasized by the manufacturer that there are so many producers of pulp paper in the market hence the stiff competition.

85. Further, from Figure 14, all the manufacturers registered a decrease in production capacity in the year 2020, a period when most markets experienced disruptions accessioned by COVID-19 containment measures. Additionally, it can be observed that the mergers had a positive impact on the production capacity of the manufacturers regardless of whether they were small, medium, or large.

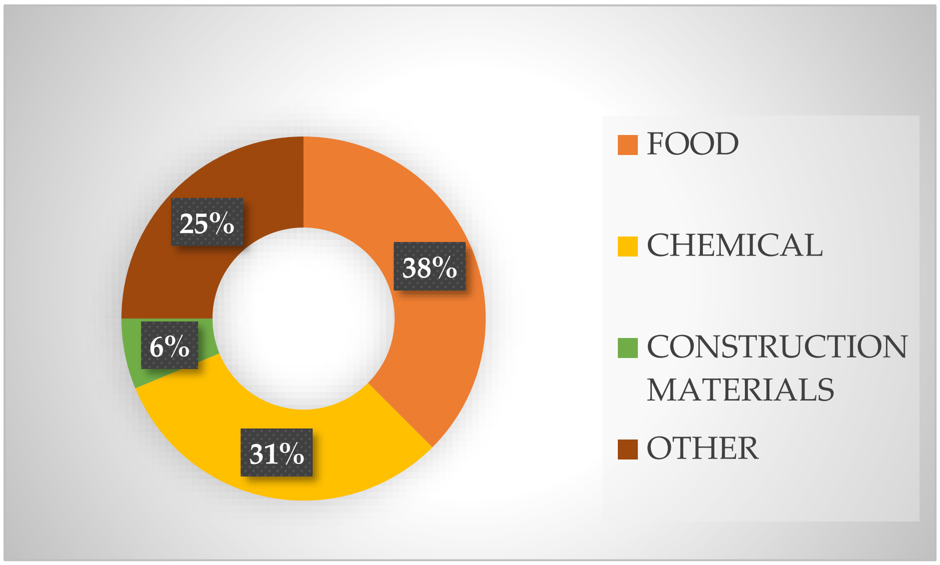
86. Out of the five manufacturers selected, only Kansai Plascon indicated to have adopted new technology/innovation in their processes. This implies that regardless of whether a manufacturer adopted or did not adopt a new technology, the M&As in this sector had a positive impact on the production capacity.

3.4. Effects of M&A in the Manufacturing Sector on Employment

87. This section assesses the effect that mergers and acquisitions in the manufacturing sector had on employment. The staff establishment of entities, including MSMEs involved in mergers between 2012 and 2022 was analyzed.

88. The respondents provided information on their staff establishment between 2012 and 2022. Figure 15 shows a representation of the respondents who provided information on their staff establishments by their sub-sectors.

Figure 15: Respondents on Employment by Product Type Manufactured



89. According to Figure 15, 38% of the respondents manufactured food products, 31% manufactured chemical & allied products, 6% were manufacturers of construction materials, and the rest- 25% manufactured apparel, packaging paper, plastic, and biomedical products.

90. Table 5 shows the classification of the respondents in terms of the nature of their shareholding, directorship, and size of the firm.

Table 4: Profile of the Respondents on Staff Establishment

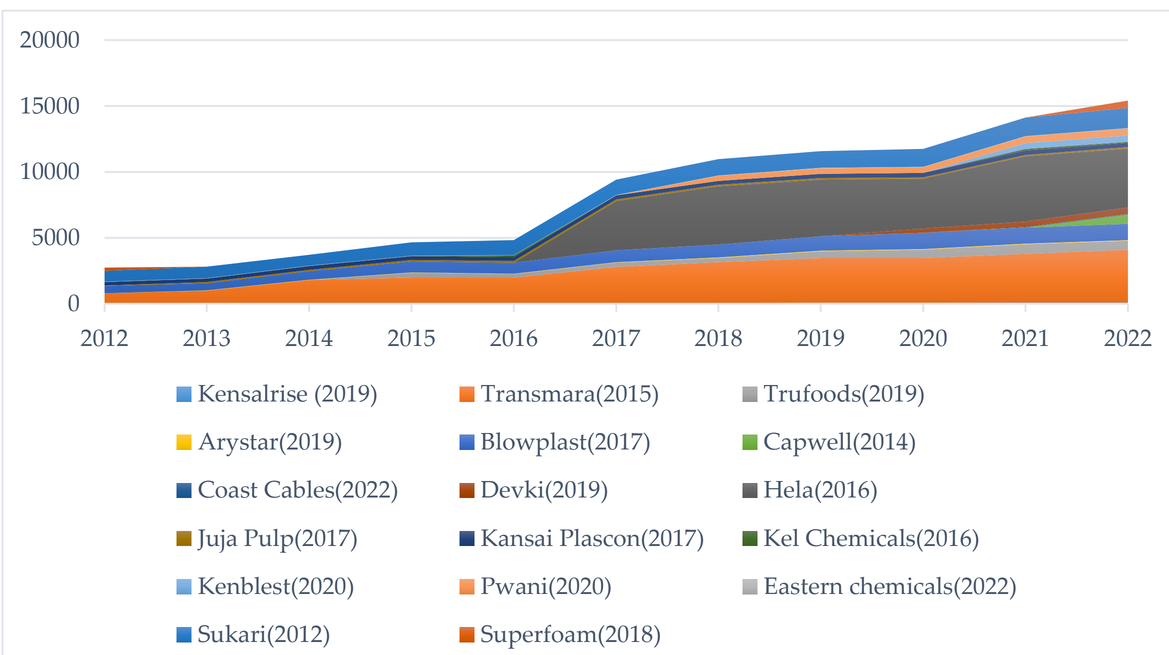
Company	Directorship (Nationality)		Shareholding (Nationality)		Classification of Enterprise (SME)			
	Kenyan	Non-Kenyan	Kenyan	Non-Kenyan	Micro	Small	Medium	Large
Kensalrise	100%		100%				✓	
Transmara	29%	71%	_					✓
Trufoods	100%		100%				✓	
Arystar	100%		100%			✓		
Blowplast	86%	14%	43%	57%				✓

Capwell	100%		100%					✓
Coast Cables	100%		100%					✓
Devki	100%		50%	50%				✓
Hela		100%		100%			✓	
Juja Pulp	100%		100%				✓	
Kansai Plascon		100%		100%				✓
Kel Chemicals	100%		100%				✓	
Kenblest	100%		100%				✓	
Pwani Oil	100%		100%					✓
Eastern Chemicals	100%		100%				✓	
Sukari	100%		100%					✓
Superfoam			100%				✓	

91. Table 5 shows that a majority of the respondents were mainly medium and large enterprises.

92. The analysis of the information provided is presented in Figure 16.

Figure 16: Trend in Employment from 2012 to 2022



Note that the year in brackets after each company in the legend indicates the year the merger took place.

93. Figure 16 shows that employment has steadily increased continuously over the period in all sectors and for firms of all sizes both during pre and post-mergers. For instance, Blowplast Limited registered a steady increase in its number of employees from 553 employees in 2012 to 1227 in 2022. Following its merger transaction in 2017, its employee numbers increased by 79 from 885 to 964 in 2018.

94. Similarly, in the acquisition of Athi River Mining Limited by National Cement Company Limited, the increase in employment can be attributed to the merger since the target, ARM, was not operational at the time of the merger. Looking at figure 16 the staff establishment of ARM has been steadily increasing from 330 in 2020 to 547 in 2023.

95. Exceptionally, the number of employees in Kel Chemicals reduced by 37% from 123 in 2021 to 78 employees in 2022. Kel Chemicals attributed this reduction to the loss of business from county governments, their main clients, due to increased competition.

96. Lastly, from Table 5 and Figure 16, it is inferred that there was an increase in employment regardless of the size of the undertakings, sectors, and nationality of shareholders and directors in all undertakings subject to the mergers that took place.

97. In conclusion, the number of employees engaged by the merged entities in the manufacturing sector increased post-transaction. Therefore, it can be deduced that M&As have positively impacted employment.

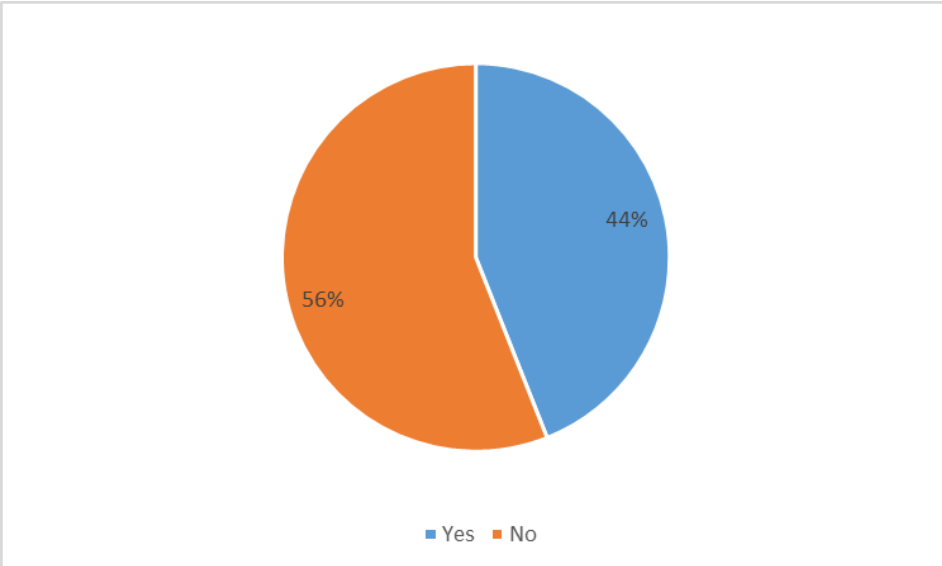
3.5. Effect of the revision of Merger Thresholds on ease of consolidation and ability of MSMEs to compete

98. This section assesses whether the revision of merger thresholds has enabled MSMEs to consolidate more easily and become effective competitors in the manufacturing sector post-merger.

3.5.1 Revision of Merger Thresholds and Ease of Consolidation of MSMEs

99. To assess whether the revision of merger thresholds enabled MSMESs to easily consolidate, the study sought the opinion of the undertakings on whether the revision of the merger thresholds had made it easy for MSMEs to merge and/or consolidate to become effective competitors in the manufacturing sector. Figure 17 presents the analysis.

Figure 17: Revision of Merger Thresholds and Ease of Consolidation of MSMEs



100. According to Figure 17, 56% of the respondents opined that the revision of the threshold had not enabled MSMEs to consolidate more easily and become effective competitors in the market. On the contrary, 44% of them agreed that the revised merger thresholds had enabled MSMEs to consolidate more easily and become effective competitors in their relevant markets.

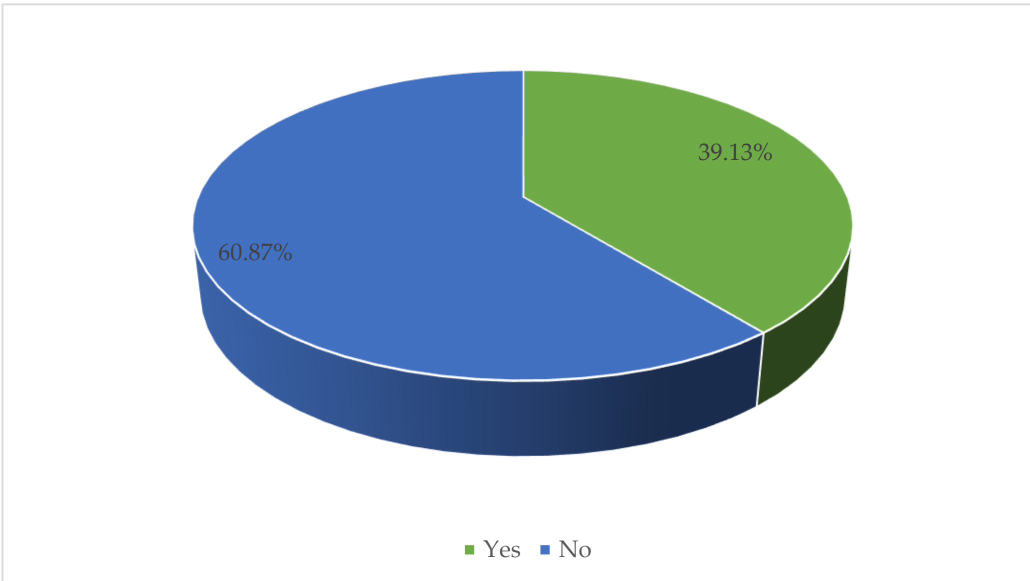
101. Respondents who indicated that revision of the thresholds did not enable MSMEs to consolidate easily explained that this was attributed to the nature of assets required in the manufacturing sector which includes plant and machinery that in most cases are valued highly thus exceeding the current exclusion threshold of KES 500 million. As a result, and considering the high value of assets, transactions involving most MSMEs in this sector meet the threshold for notification and affect ease.

102. On the other hand, a substantial number of the respondents (44%) agreed that the revision of Merger Thresholds had enabled MSMEs to consolidate with ease. This is an attestation that the revision of the Thresholds had a positive effect on ease of consolidation.

103. From the study, it was identified that the majority of the MSMEs have assets valued at above KES 500 million due to the capital intensiveness of the business mainly plant and machinery thus exceeding the current exclusion threshold. Therefore, they have not been able to consolidate more easily as a result of the revision of the merger thresholds as the transactions meet the threshold for mandatory notification.

104. Further, the respondents were asked to give their opinion on whether the revised merger thresholds were sufficient to reduce the merger/ acquisition transaction costs for MSMEs. The analysis is presented in Figure 18.

Figure 18:Revision of thresholds reduced transaction cost in general



105. According to Figure 18, 60.9% of the respondents indicated that the revision of the merger thresholds had not sufficiently reduced the merger transaction costs for MSMEs, while 39% indicated otherwise. This is an implication that the majority of the manufacturers felt that the revision had not significantly reduced transactional costs. The respondents explained that this observation is attributed to the nature of assets required in the manufacturing sector which includes plant and machinery that in most cases are valued highly thus exceeding the current exclusion threshold of KES 500 million. As a result, and considering the high value of assets, transactions involving most MSMEs in this sector meet the threshold for notification which increases transactional costs.

3.5.2 Revision of merger thresholds and merger transactional costs

106. Additionally, the study examined whether the revision of the thresholds had sufficiently reduced the transaction costs according to the classification of manufacturers. The output is detailed in Table 6 below

Table 5: Reduced transaction cost by classification of manufacturers

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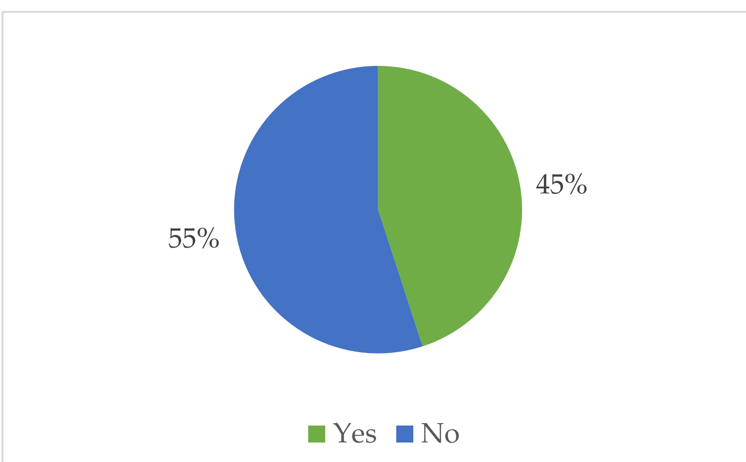
Classification	Sufficient reduced transaction cost		Total
	Yes	**No**	
Small and Medium Enterprises	2	9	11
	18%	82%	100%
Other	6	5	11
	54%	46%	100%

107. Table 6 shows that 82% of the MSMEs interviewed opined that the revision of the thresholds had not significantly reduced the transactional cost. Nonetheless, 18% of them agreed that the revision of the merger threshold had sufficiently reduced transaction costs. Further, 54% of large enterprises felt that the revision of the merger threshold had sufficiently reduced the transaction cost, whereas 46% of them felt otherwise. These findings imply that the revision of the merger threshold did not sufficiently reduce the transaction costs for MSMEs.

3.5.3 Revision of Merger Thresholds and ability of MSMEs to compete

108. Additionally, the ability of MSMEs to compete was analyzed in terms of the adoption of new technology/innovation. Figure 19 below details the output of the analysis.

Figure 19:Adoptation of new technology/innovation



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109. As per Figure 19, 45% of the respondents confirmed to have adopted new technology in their processing post-merger. On the other hand, 55% had not introduced new processing technology post-merger. This is an indication that more than half of the MSMES did not introduce new technology as a means of becoming more competitive in their relevant markets.

110. The study equally analyzed whether the revision of the threshold sufficiently reduced transactional cost across the nature of shareholding. Table 7 below presents the analysis output.

Table 6: Sufficiently reduced transaction cost across the nature of shareholding

Nature of shareholding	Sufficient reduced transaction cost		Total
	Yes	**No**	
Local	4	11	15
	27%	73%	100%
Foreign	1	3	4
	25%	75%	100%
Both Local and Foreign	3	0	3
	100%	0%	100%

111. According to Table 7, 73% of locally owned manufacturers indicated that the revision of the threshold had not led to sufficient reduction of transaction costs, while 27% were of a contrary opinion. Similarly, 75% of foreign-owned manufacturers pointed out that the revision of the threshold did not sufficiently reduce the transaction costs whereas 25% of them felt otherwise. Generally, both local and foreign-owned manufacturing firms indicated that the revision of the threshold did not lead to a sufficient reduction in transaction costs. This is an indication that the revision of the threshold did not sufficiently reduce transactional costs regardless of the nature of shareholding.

112. In addition to the merger transaction costs i.e. legal representation fee, filing fee, and valuation and due diligence fees, the respondents indicated that they incur other costs to

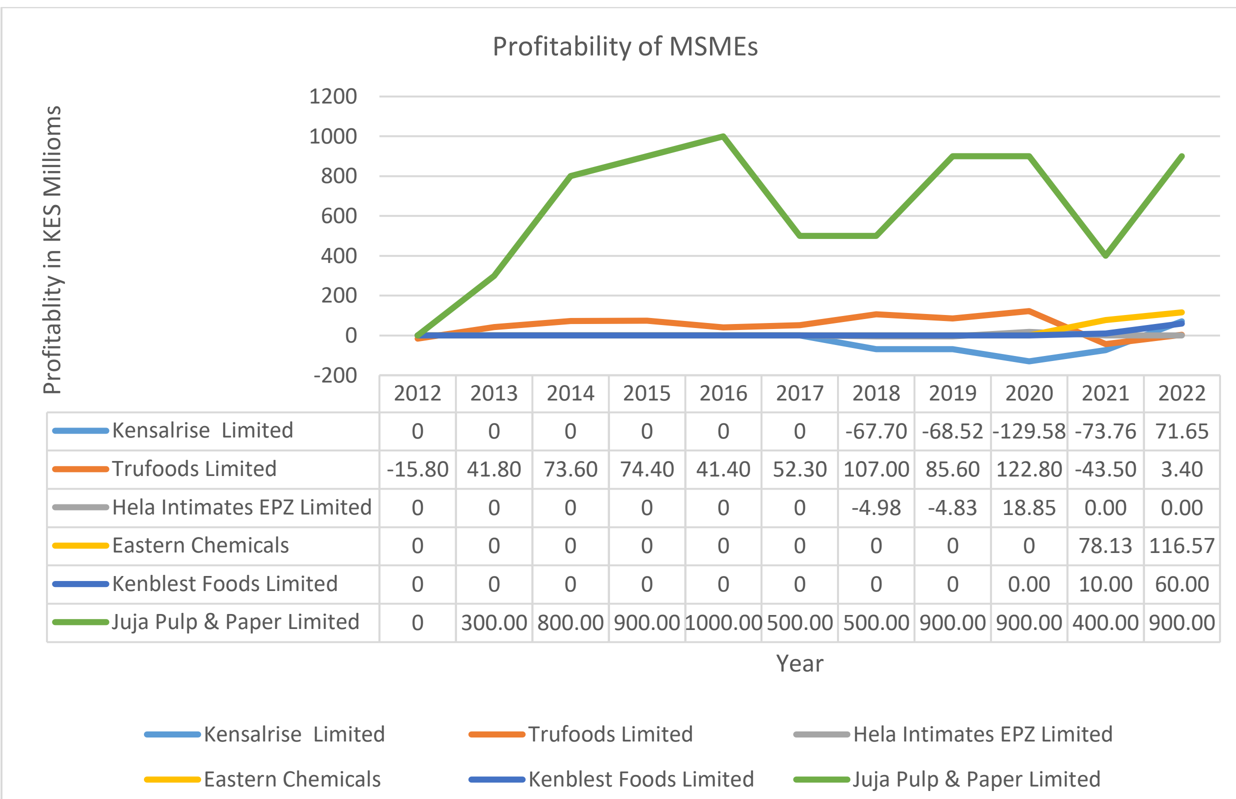
operate which include; business permits, standardization marks, distribution permits, and Certificate of Registration.

113. Findings from the study indicate that the revision of the merger thresholds had not sufficiently reduced the merger-related transactional costs for MSMEs in the manufacturing sector regardless of the type of product manufactured or the nature of shareholding of those MSMEs. Additionally, more than half of the MSMEs had not introduced new processing technology to become more competitive in their markets. From the above analysis, the study finds that the revision of merger thresholds did not sufficiently enable MSMEs to consolidate more easily and become more competitive in their markets.

3.6. Effects of M &As in the manufacturing sector on the profitability of MSMEs

114. The study sought to establish whether merged entities experienced profitability post-merger. Figure 20 presents the output of the analysis.

Figure 20: Profitability of MSMEs post-merger



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Kensalrise Limited	0	0	0	0	0	0	-67.70	-68.52	-129.58	-73.76	71.65
Trufoods Limited	-15.80	41.80	73.60	74.40	41.40	52.30	107.00	85.60	122.80	-43.50	3.40
Hela Intimates EPZ Limited	0	0	0	0	0	0	-4.98	-4.83	18.85	0.00	0.00
Eastern Chemicals	0	0	0	0	0	0	0	0	0	78.13	116.57
Kenblest Foods Limited	0	0	0	0	0	0	0	0	0.00	10.00	60.00
Juja Pulp & Paper Limited	0	300.00	800.00	900.00	1000.00	500.00	500.00	900.00	900.00	400.00	900.00

115. According to Figure 20, generally, post-merger, there was positive growth in profitability for majority the entities. The COVID-19 period affected business operations thus a reduction in

income. However, post-COVID, there was a resurgence with the majority of the entities showing positive profits.

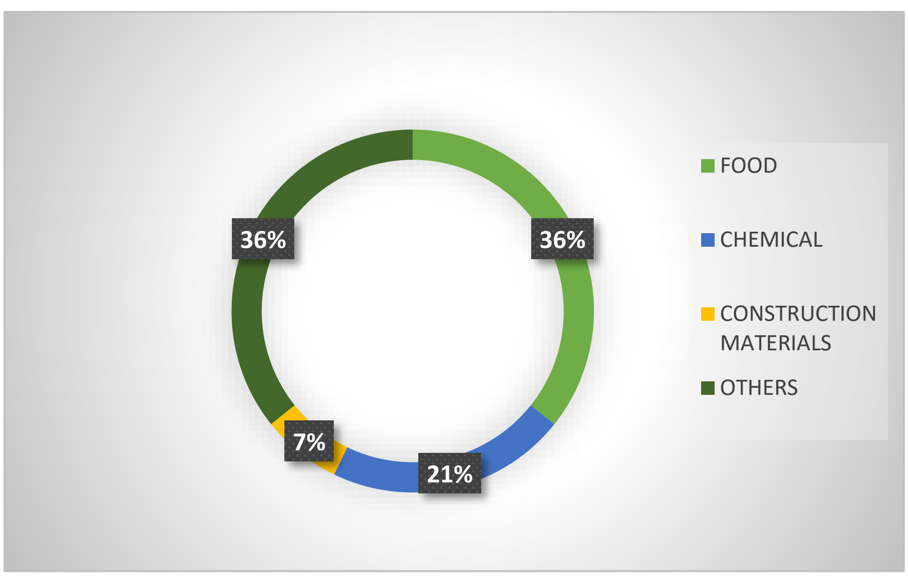
116. This implies that the merger transactions had contributed positively in terms of the increase in profitability of MSMEs. Therefore, it is concluded that mergers had a positive effect on the profitability of MSMEs in the short- run. However, in the long- run, other factors such as pandemics and global inflation among others may erode the positive effects earlier gained.

3.7. Sufficiency of the factors considered in the Public Interest Test (PIT)

117. This sub-section analyses whether the factors that the Authority considers in the assessment of public interest issues are sufficient to cover matters of public interest. The Authority, in its determination of mergers, among other things takes into account the public interest test (PIT). The PIT focuses on the extent to which a merger would affect: (i) employment; (ii) the ability of SMEs to gain access or to be competitive in any market; (iii) the ability of national industries to compete in international markets and (iv) advancements in a particular industrial sector. The study also sought to establish what other factors should be considered by the Authority in the public interest test.

118. Figure 21 shows a representation of respondents who provided information on Public Interest by their sub-sectors.

Figure 21: Respondents on public interest by product type



119. From Figure 21 the respondents who manufactured food products were 36%, chemical and allied products were 21%, construction materials were 7% and the others (36%) were manufacturers of packaging papers, cement, apparel, and plastic.

120. Table 8 below shows the classification of the respondents in terms of the nature of their directorship, shareholding, and size of the firm on Public Interest.

Table 7: Profile of Respondents on Public Interest

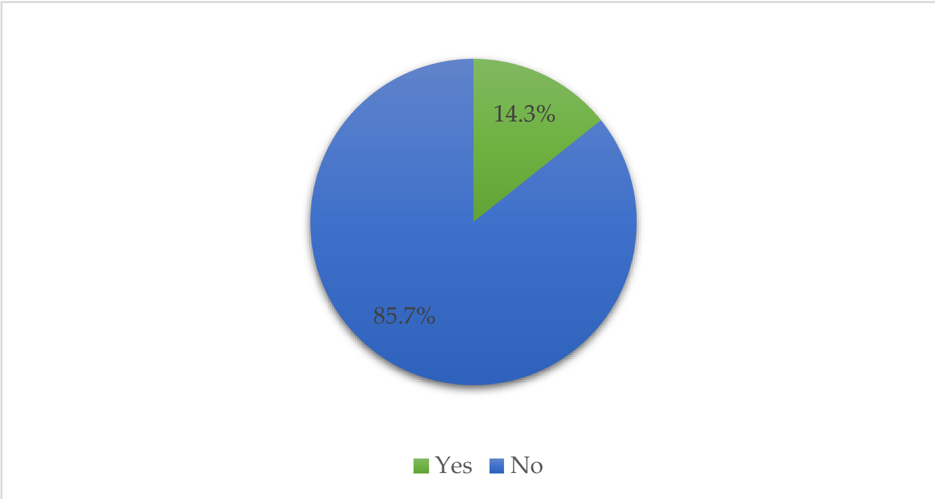
Company	**Directorship (Nationality)**		**Shareholding** (Nationality)		**Classification of Enterprise (SME)**			
	Kenyan	**Non-Kenyan**	**Kenyan**	**Non-Kenyan**	**Micro**	**Small**	**Medium**	**Large**
ProPack	100%		100%				✓	
Trufoods	100%		100%				✓	
Blowplast	86%	14%	43%	57%				✓
Coast Cables	100%		100%					✓
Devki	100%		50%	50%				✓
Juja Pulp	100%		99%				✓	
Kel Chemicals	100%		100%				✓	
Nampak	33%	67%						✓
Eastern Chemicals	100%		100%				✓	
Sukari	100%		100%					✓
Nestle		100%	100%	100%				✓
Superfoam			100%				✓	

121. According to Table 8, all the respondents were medium and large enterprises and 73% of the respondents had local shareholding and directorship.

3.7.1 Sufficiency of Factors Considered in Public Interest Test

122. Figure 22 shows the analysis of the information provided by the respondents about the sufficiency of the PIT to address public interest matters.

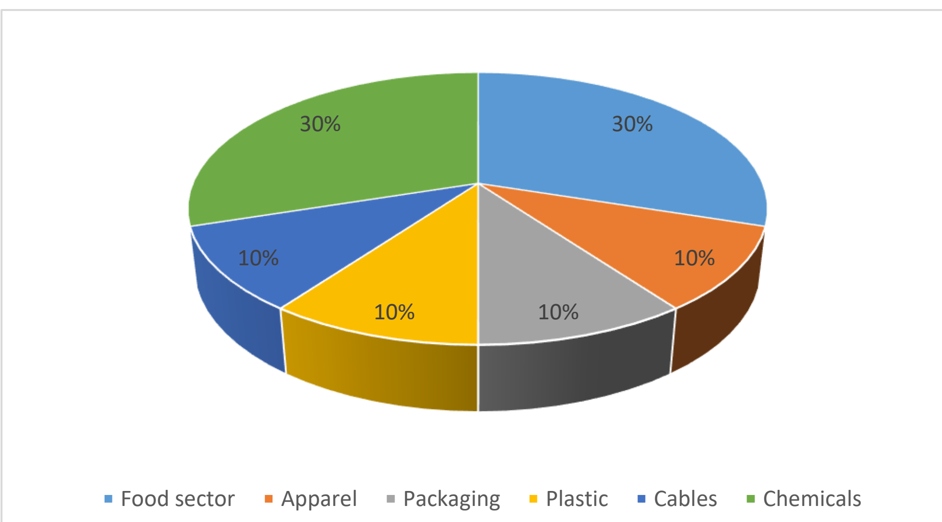
Figure 22: Respondents take on Sufficiency of PIT



123. As is indicated by Figure 22, the majority of the respondents (85.7%) noted that the public interest test is not sufficient in addressing public interest concerns while 14.3% indicated that the factors considered in the public interest test are sufficient. This is an indication that the factors considered in PIT are not sufficient in addressing public interest concerns.

124. Figure 23 shows the percentages of respondents by product type who indicated that the PIT is not sufficient.

Figure 23: Respondents who indicated that PIT is not Sufficient by product type



125. Figure 23 shows that the majority of the respondents who pointed out that PIT is not sufficient were manufacturers of chemical and food products at 30% each. The findings show that the

insufficiency of PIT in addressing public interest concerns was felt across manufacturers of different products.

3.7.2 Other factors proposed by respondents for consideration under PIT

126. The study equally analyzed suggestions put forward by the respondents regarding other factors that the Authority may consider in the PIT. Table 9 represents suggestions made by respondents in various sub-sectors.

Table 8: Other Public Interest Factors to Consider under PIT according to Respondents and their sub-sector

Additional Factor of Public Interest	Sub-sector
Promote Local shareholding/partnership for international investors in Kenya	Food
Development and use of locally manufactured resources/goods	Construction
Potential to generate export earnings to the country	Other (Clothing Apparel)
Involvement in Corporate Social Responsibility and Environmental Management	Chemicals, Food, Construction
Environmental, Social, and Governance (ESG) issues related to sustainability and survival of businesses post-merger	Chemicals
Adherence to regulatory requirements such as KEBS standards	Food, Other (Cables)

127. Generally, the suggestions by the respondents were to consider; promoting local shareholding, socio-economic factors of the merger in respect to competitive advantage and potential future entrants, standardization of compliance in collaboration with KEBS, merged entity to focus on development and use of locally manufactured resources/goods. Other suggestions include involvement in corporate social responsibility and governance which

have a big impact on the sustainability and survival of businesses, especially post-merger, and whether the merger is likely to contribute positively to economic growth in the long term and diversification.

128. In light of the foregoing, there is a need for the Authority to consider additional factors under the PIT during the assessment of mergers.

3.8. Rating of the Authority on Handling Mergers

129. This sub-section analyses respondents' rating of their engagement with the Authority on merger transactions in terms of customer service.

130. Respondents rated the Authority at an average of 8 out of 10 on customer service concerning handling of merger transactions. The highest rating received was 10 out of 10 and the lowest was 3 out of 10. This means that the Authority is highly rated in terms of customer service.

4.0. CONCLUSIONS AND RECOMMENDATIONS

131. This section details a summary of the conclusions and recommendations based on the objectives of the study.

4.1. Conclusion

i. Effects of M &As in the manufacturing sector on:

4.1.1 Financial performance of the post-merger entities

132. Mergers in the manufacturing sector have resulted in a positive effect on the financial performance of merged entities irrespective of their size, nature of shareholding, and the nationality of directors.

4.1.2 Production capacity/output of the post-merged entities

133. Mergers in the manufacturing sector had a positive impact on the production capacity of the merged entity irrespective of the size of the firm, and whether or not the manufacturer had adopted new technology.

4.1.3 Profitability of MSMEs

134. Mergers had a positive effect on the profitability of MSMEs in the short- run. However, in the long- run, other factors such as pandemics and global inflation among others may have eroded the positive effects earlier gained.

4.1.4 Employment opportunities in the post-merged entities;

135. There has been a positive effect on employment through mergers as evidenced by the increase in the number of employees post-transaction.

4.1.5 Prices of relevant products of the post-merged entities

136. No clear relationship could be established between price movements and mergers in the manufacturing sector.

ii. Effect of the revision of merger thresholds on:

4.1.6 Merger transactional costs for MSMEs

137. The revision of the merger thresholds had not sufficiently reduced the merger-related transactional costs for MSMEs in the manufacturing sector regardless of the type of product manufactured or the nature of the shareholding of those MSMEs. With the inclusion of assets in the determination of thresholds, it was evident that most MSMEs in the manufacturing sector still met the threshold for notification which increased their transactional costs. This

was attributed to the asset-intensive nature of the sector which in most cases exceed the current exclusion threshold of KES 500 million.

4.1.7 Ability of MSMEs to easily consolidate and become effective competitors in their markets post-merger

138. Revision of merger thresholds did not sufficiently enable MSMEs to consolidate easily and become effective competitors in their markets. Additionally, more than half of the MSMEs did not adopt new processing technology as a means of becoming more competitive in their markets.

iii. Public Interest Test

4.1.8 Sufficiency of factors considered in Public Interest Test (PIT) in addressing public interest issues

139. The factors currently considered under PIT are not sufficient to address public interest concerns. Other PIT factors recommended for consideration include:

- i) Promotion of Local shareholding/partnership for international investors in Kenya
- ii) Development and use of locally manufactured resources/goods
- iii) Potential to generate export earnings to the country
- iv) Involvement in Corporate Social Responsibility and Environmental Management
- v) Environmental, Social, and Governance (ESG) issues related to sustainability and survival of businesses post-merger; and
- vi) Adherence to regulatory requirements such as KEBS standards

4.1.9 Rating of the Authority on Handling Mergers

140. The Authority was highly rated in terms of customer services concerning mergers with an average score of 8 out of 10.

4.2. Recommendations

a) Review of Existing Merger Thresholds

141. The significance of the manufacturing sector to the Kenyan economy cannot be underscored. The study shows that the nature of assets required in the manufacturing sector (including plant and machinery) in most cases are valued above KES 500 million. As a result, transactions involving most MSMEs in this sector meet the threshold for notification which increases transactional costs. To reduce the merger transactional costs and to allow MSMEs in the manufacturing sector to consolidate easily and become effective competitors, there is a need to consider revising the merger notification thresholds for the manufacturing sector focusing on the relationship between assets and turnover.

b) Review of Public Interest Test Considerations

142. In addressing public interest concerns in the manufacturing sector, the Authority needs to consider additional factors other than (i) employment; (ii) the ability of SMEs to gain access or to be competitive in the market; (iii) the ability of national industries to compete in international markets and (iv) advancements in the industrial sector, in the PIT. Other factors to consider include corporate social responsibility (CSR), and Environmental social and governance (ESG) issues relating to the merging parties during merger analysis.

143. To address this, there is a need to review the Authority's public interest guidelines and anchor additional factors of PIT in the Competition (General) Rules, 2019.

4.3. Implementation Matrix

S/No	Activity	Timelines	Responsible	Resources Required
1.	Plenary to present the report to staff and collation of their comments	8th December, 2023	Teams from PPR and M&A	Human Resources
2.	Updating the report to incorporate comments from the plenary	11th to 15th December, 2023	Teams from PPR and M&A	Human Resources
3.	Management review of the Report	18th to 22nd December, 2023	MMA, DCCP, and Ag. DG	Human Resources
4.	Incorporation of Management comments and finalization of report	27th December 2023 to 3rd January 2024	Teams from PPR and M&A	Human Resources
5.	Presentation of final report and submission to Ag. DG	5th January, 2024	MMA, MPPR, DCCP, and Ag. DG	Human Resources