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# Merger mania set to affect dotcoms

Amidst the rubble of Asia's short-lived tech boom, hundreds of under-capitalised start-ups are still struggling for survival. For many, the logical end game is to merge with better-capitalised competitors or strategic investors.

However ripe the market is for consolidation, there have been very few mergers and acquisitions in the region.

To date, the key hurdle to merger activity has been unrealistic company valuations. Scores of potential deals in Asia have been scuttled by bid-ask spreads too far apart to bridge. Far too many start-up founders are still basing their asking prices on obsolete methodologies – valuations based on web site traffic, customer activity and projected revenues. A new market paradigm has emerged and valuations need to be based on more traditional and conservative methodologies. Increasingly, transactions are being negotiated at close to the cash or enterprise value of the ongoing concern.

Premiums on intangible assets – namely the quality of the customer base, depth of management talent and uniqueness of technology developed – will be, at best, modest.

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Successful technology mergers in Asia will be underpinned by a sound investment thesis and well-executed post-merger integration plans. Value is created by unlocking the synergy value between the two companies – cross-selling to each others' customer base, bundling product and service offerings that

meet critical customer needs etc.

For many struggling technology start-ups in Asia, mergers are not an instant panacea to their struggles. But, if thoughtfully conceived and carefully executed, they may well be a step in the right direction.



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