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The Pre and Post Merger Performance of Firms in Ghana: The Experience of Guinness Ghana Breweries Limited

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Abstract Ghana's economy has experienced a windfall of merger and acquisition activity recently. This has necessitated several structural changes in the operations of the companies involved. One of the acquisitions that occurred in Ghana was between Guinness Ghana Limited (GGL) and Ghana Breweries Limited (GBL) in 2004. Using the pre and post-acquisition performance of the acquirer from financial statement information running from 1999 to 2009, the impact of the merger on the profitability and financial performance on the acquirer is examined. The growth rate implications for the merged firm are also examined by considering both the sustainable and internal growth rates. The results indicate a general downward trend in profitability after the acquisition. Generally, liquidity ratios increased during the post-acquisition period but plummeted in the last two years post-acquisition. Earnings per share and dividend per share increased continuously except in one year, where it fell marginally.

Keywords: *mergers, acquisition, Ghana, ratios*

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1. Introduction

In the past two to three decades, the world has witnessed a plethora of mergers and acquisitions and the media is flooded with daily reports of acquisitions of firms in the corporate world. The ever-changing and unstable economic, social and technological trends have fuelled keen competition in many industries across the globe. Businesses no longer compete with each other locally but also globally. Many businesses have adopted the merger and acquisition strategy in order to stay competitive and take advantage of opportunities emanating from the ever changing environment (McLaughlin, 1996; Lubatkin, 1983). Martynova and Reneboog (2004) address the issue of the existence of different types of waves of mergers that occur in the world. According to their research as at 2004, five waves had been completed and perhaps the recent happenings can be an indication that the world is in the sixth wave.

Jordan et al. (2001) consider acquisitions as the pooling of interests by the acquired and the acquiring firm with the new firm created jointly owned by all stockholders of the previously separate firms. Others define a merger as a complete absorption of one company by another, where the acquiring firm retains its identity and the acquired firm ceases to exist as a separate entity (Ross, Westerfield and Jordan, 2002). According to Clemente and Greenspan, 1998, the converse situation occurs in an acquisition which occurs when one company purchases another, whiles the ownership of the combined entity remains with the owners of the purchase. According to Jordan et al. (2001), firms merge in order to achieve certain objectives, but the prime objective is to maximise shareholders wealth. Some of the reasons for merger and acquisition include: synergy, revenue enhancement, cost and tax reduction, diversification, elimination of inefficiency, increased ownership, increased managerial skills and technology, liquidity and defence against takeovers (Matrynova and Renneboog, 2004; Matrynova and Renneboog, 2006).

There have been some notable mergers and acquisitions between some firms in Ghana over the last two decades. These mergers and acquisitions occurred in the mining, hospitality, brewery, petroleum and banking industry in Ghana. The most notable one was the merger between Ashanti Gold fields and AngloGold limited, a South African mining firm in 2003. Kumasi Brewery and Achimota Brewery Limited merged in 1998 and Ghana Breweries Limited was formed. Guinness Ghana Limited acquired Ghana Breweries Limited in January 2004. Lately there have notable mergers and acquisitions in the banking sector. Some cases in point are the 2013 takeover of Merchant Bank Ghana by FORTIZ equity funds and the acquisition of the International Commercial Bank Ghana by the First Bank of Nigeria Limited. In 2011, Ecobank Ghana Limited took over the Trust bank and two foreign banks operating in Ghana, The Access Bank and the Intercontinental bank, merged in 2012 (Bank of Ghana, 2013).

Not until recently, mergers and acquisitions were relatively uncommon in Ghana. However with the frequency with which they are currently occurring in the economy, there is the need to consider the probable causes and effects on organisations, consumers and the economy as a whole. A successful transaction affects consumer employees, management, competitors and shareholders of the acquired and acquiring firm. Employees of the acquired firm are sometimes left redundant. A classic example is the acquisition of the Amalgamated Bank by The Bank of Africa in April, 2011 where some employees in non-management positions were left redundant. The management of the acquired firm is sometimes replaced with a new management team once the takeover process is complete. This is because there is a higher probability that the new entity will streamline its operations in order to be more efficient and productive in the long run. But is that always the case? The questions that linger for every acquisition and merger continue to be whether mergers provide real benefits to acquiring firms?

These merger and takeover transactions often do not achieve their proposed objectives because of issues like differences in corporate culture, defensive tactics and the complexities involved in merging two different brand names (Brealey, Myers and Marcus 2001; Lubatkin, 1983). According to Berk and DeMarzo, 2007, creating or increasing shareholders value in a merger and acquisition deal is vital to the success of the new entity formed. Many firms across the globe are using mergers and acquisitions as a strategy to penetrate new markets and consolidate their brand name and position.

One of the acquisitions that occurred in Ghana was between Guinness Ghana Limited (GGL) and Ghana Breweries Limited (GBL) in 2004. The main objective of this study is therefore to examine the financial performance of Guinness Ghana Limited before the acquisition and Guinness Ghana Breweries Limited after the acquisition and the reasons why the transaction was done. Following the broad objective above, the specific reasons for this research is firstly to determine the impact of a merger and acquisition on the profitability and financial performance of the acquiring firm. Secondly, the specific gap that this research seeks to fill is to determine the growth rate implications for the merged firm by considering both the sustainable growth and internal growth rates for the merged firm. The value of the firm will also be discussed and studied before and after the acquisition to determine how valuable this acquisition was to the shareholders of the acquiring firm. This will be done by comparing financial statement information before and after the acquisition.

The research will progress with a brief discussion of some of the relevant literature on mergers and acquisitions, followed by a discussion on the methodology and then the presentation, analysis and interpretation of the data collected. The final part of this paper will conclude the findings.

2. Review of Selected Literature

The world is now a competitive business environment. The ability of a business to make sustainable improvement in both new and old markets depends to a large extent on decisions made by management and the board of the company involved. Mergers and acquisitions often provide an acquiring firm the ability to capture new market segments and enter into new markets hence improving productivity. (Brealey, Myers and Marcus, 2001).

According to Gaughan (1999), mergers and acquisitions have an immediate impact or an effect on the bidding company with respect to changes in ownership, ideology and in the long run practice. In the view of Berk and DeMarzo (2007), the global takeover market is highly active, averaging more than $1 trillion in transaction value. The takeover market is characterised by merger waves, which is the peak of heavy activities and a decline in activities depicted by few transactions. Merger activity is great during economic expansions and insignificant or less during economic recessions.

Ross, Westerfield and Jordan (2001) classify acquisitions into three types. They are horizontal acquisitions, vertical acquisitions and conglomerate acquisitions. To start with, a horizontal acquisition refers to an acquisition in which the acquiring and the acquired firm are in the same industry or the same type of business. In Ghana, Ashanti Goldfields Limited and AngloGold South Africa, both from the mining industry, merged to form AngloGold Ashanti Limited in 2004. Also, Standard Chartered Group acquired sixty five per cent in Union Bank Nigeria in October 2012. The acquisition of GBL by GGL in 2004 is an example of a horizontal acquisition.

The acquiring firm enjoys economies of scale in the form of purchasing and distribution access to different skill set and expertise of employees and utilization of excess capacity. According to Berk and DeMarzo (2007) acquiring firms enjoy economies of scope such as savings that arise as a result of combining the marketing and distribution of different types of related products (Capron, 1999). Economies of scale occur when as the company produces more, their average cost of production falls. In spite of this, large mergers sometimes fail because managers sometimes cannot handle the complex task of combining two firms with different corporate cultures and diverse methods of operations. Capron (1999) observes from a study of 253 horizontal mergers using insights from the cost efficiency and resource-based theories propose a model of the effects of asset divestiture and resource redeployment on long-term acquisition performance to cover the period of 1988 to 1992, acknowledges that though horizontal acquisitions may tend to create value, a significant risk of damaging acquisition performance is posed when the divestitured asset is that of the bidder.

A vertical acquisition involves firms in different steps of the production process. This serves as an opportunity for the acquiring firm to increase their market share and reduce cost of production. Usually, all facilities that were in operation continue before the acquisition continues to function. The combined entity can gain control over the production chain and the distribution channels. A typical example is the acquisition of Benso Oil Palm Plantation by Unilever Ghana Limited in October 2003. Unilever acquired 58.5 per cent of equity stake in the plantation in a deal worth $11.7 million (www.modernghana.com). In this instance, Benso Oil Palm Plantation will supply raw materials, which is palm oil to Unilever for the production

of goods like soap. Chatterjee (1991) takes data from the large merger series of the Federal Trade Commission (FTC) for the period July 1962–1979 and identified 116 vertical mergers. Using July 1962 as a starting date and the cumulative abnormal return (CAR) to measure changes in market value, finds that on the average, firms increase their market power as a result of vertical mergers. The third classification, termed conglomerate acquisitions involves firms that are from different and unrelated industries coming together.

In compiling the determinants of merger activity over the five waves that started since the early 1900s, Martynova and Renneboog (2004) conclude that takeovers usually occur in periods of economic recovery and resulting from burgeoning external capital markets accompanied by stock market booms. They also noted that regulatory changes such as anti-trust legislation or market deregulation activities fuel takeovers and mergers. Industrial and technological shocks have also been identified to fuel merger activities from the study of these waves. Agency conflicts have also been pointed as one of the catalyzing factors in take overs and mergers where managers' personal objectives have influenced takeover activity. Regulatory stability may also have some influence on merger activity. According to Rossi and Volpin (2004), firms in countries with weaker investor protection are often sold to buyers from countries with stronger investor protection. They further assert that the size of the takeover premiums, the benefit of mergers and acquisitions to the acquiring firm, are determined to a large extent by the level of shareholder protection in the particular country.

One limiting factor in the literature of M&A is the challenge of having a universally acceptable method of measuring performance post-merger. Employing multiple search techniques to identify empirical research that included M & A activity and financial performance, King et al (2004), find that studies on the performance of the acquiring firm post-merger has largely remained inconclusive and identifying antecedents that can be used to predict post-acquisition performance has been a challenge in the research on mergers and acquisitions. However, the cumulative reason for merger activity, shareholder wealth creation has never been in question. (See Ross, Westerfield and Jordan, 2001; Berk and DeMarzo, 2007).

Using a sample of 30 European countries over the period of 1993 to 2001, Martynova and Renneboog in 2006 again examine the shareholder wealth effects of European mergers and acquisitions and find that that takeovers occurring at a later stage of the takeover wave trigger lower gains to shareholders than Mergers and acquisitions.

It is imperative that these takeover waves which have gained grounds in Africa and for that matter Ghana in the last few decades be investigated to review the possibilities, threats and opportunities they hold for firms and shareholders.

2.1. Theories of Mergers and Acquisitions

The value increasing or synergy theory states that mergers and acquisitions generate synergies between the acquirer and the target firm. Synergy occurs when the value and performance of two companies combined will be greater than the sum of their separate parts. A successful merger can lead to financial and operating synergy. With financial synergy there is an increase in the revenue of the merged entities while in operating synergy there is a reduction in manufacturing or cost of operations as a result of economies of scale. An example is the merger between Mobil Oil Ghana and Total Ghana in November, 2006. (See Jenson, 1987; Bruner 2004).

Moreover, the market power theory suggest that all other things beings equal, firms with great market power can charge higher prices and earn higher profits when a merger or an acquisition deal takes place. This usually happens when the acquirer has a high market share and merges with a company who has a relatively low market share. A classic Ghanaian example is the MTN-Areeba acquisition in 2006. The theory of corporate power control states that the management of a stronger firm will acquire a firm who is not performing up to its potential. High growth firms have that capability to acquire firms that are performing poorly and turn it into an efficient one, thus increasing productivity in the long run.

2.2. Motives or Rationale behind Mergers and Acquisitions

Firms merge or acquire another based on strategic reasons. The decisions taken by the Board of Directors to merge with another company is mainly geared towards increasing profitability and maximising shareholders' wealth and value, although some mergers and acquisitions do not always result in these two prime benefits.

Mergers and acquisition help the firm to increase their revenue. This is because the combined entities have a greater opportunity to increase their revenue than two separate firms. Ross, Westerfield and Jordan (2001) assert that revenue enhancement can be achieved as a result of marketing gains, strategic benefits and an increase in market power. The merged entity can acquire market power when their market share increases. An increase in market share means they can charge competitive prices and enhance their profits. Also, competitors cannot easily compete with the merged entity for their customers. Market power gives the merged entity more control in the industry. Furthermore, the merged entity can gain cost efficiency. This can be achieved through economies of scale. As the two companies come together to form a bigger one, goods produced or services rendered are produced on large scale. When production output increases, the average cost per unit of production decreases.

The ultimate motivation by far for the merged entity is to derive synergy. Synergy refers to the positive incremental net gain associated with the combination of the two firms. The synergic effect leads to increases in expected cash flow in the combined entity over the sum of independent firms. If we assume that V_A and V_B are the values of firm A and firm B respectively, and V_{AB} is the value of the merged entity, then the synergy argument holds if the $V_{AB} > V_A + V_B$. Let ΔV be an incremental net gain from acquisition. The difference between the values of the two firms, which is the sum of the two companies, is the incremental net gain from acquisition. Therefore $\Delta V = V_{AB} - (V_A + V_B)$. Hence Synergy is generated when ΔV

is positive (Ross, Westerfield and Jordan 2001). This research is also based on the synergistic principle underlying mergers and acquisitions.

3. Research Method

The financial statements of GGL and GGBL were the key sources of data for this research. Interviews with selected brokers were also used to gather data. The data collected was analysed through the computation of various ratios. Line graphs, bar charts and tables were used to analyse the growth of the firm before and after the acquisition. The financial statements of Guinness Ghana Limited and Guinness Ghana Breweries Limited were reviewed over a ten year period. GGL is the acquiring firm and GGBL is the new entity formed. The financial data obtained was from 1999 to 2003 and 2005 to 2009. Selected financial ratios under five key classes of ratios as per Ross, Westerfield and Jordan (2001) were computed. The ratios as a group measured financial qualities such as profitability, liquidity, leverage, shareholders or firm value and growth ratios. They were selected after considering existing empirical studies in the area and financial characteristics that are believed to be important in merger decisions (Stevens, 1973). The ratios used are discussed below.

3.1. Profitability Ratios

This ratio was used to ascertain whether the company was profitable before and after the acquisition. This ratio is used to assess the firm's ability to generate earnings as compared to its expenditure and other cost over the ten year period. This helped the researchers to determine whether revenue enhancement, being a source of financial synergy and a reason for acquisition was created or not after the deal occurred in 2004 (See Stevens, 1973; Libby, 1975 and Chen, 1981). The ratios under profitability are defined as follows:

$$Gross\ Profit\ Margin = \frac{Gross\ Profit}{Turnover} \times 100\% \quad (1)$$

$$Net\ ProfitMargin = \frac{NetProfit}{Turnover} \times 100\% \quad (2)$$

$$Return\ On\ Asset = \frac{NetProfi\ beforetax}{Totalassets} \times 100\% \quad (3)$$

$$Return\ On\ Equity = \frac{NetProfit\ beforetax}{Networth} \times 100\% \quad (4)$$

3.2. Liquidity Ratios

This ratio measures the ability of an entity to discharge its short term liabilities or obligations. The higher the liquidity value, the higher the probability that GGBL can discharge its short term obligations. The lower the liquidity value, the lower the probability that GGBL can discharge its short-term obligations. The ratios are:

$$Quick\ ratio = \frac{Currentassets - Inventory}{CurrentLiabilities} \quad (5)$$

$$Current\ Ratio = \frac{current\ assets}{Current\ liabilities} \quad (6)$$

3.3. Leverage Ratio

This ratio examines the relationship that exists between internally generated funds and externally generated funds. It looks at whether Guinness Ghana Breweries limited finance its operation with debt or equity before and after the acquisition.

$$Debt - equity\ ratio = \frac{Total\ Debt}{Total\ Equity} \quad (7)$$

$$Debt\ ratio = \frac{Long\ term\ liabilities}{Total\ assets} \quad (8)$$

3.4. Growth Ratios

These ratios measure the rate at which a firm grows. Internal Growth Rate (IGR) and Sustainable Growth Rate (SGR) were calculated for the post and pre acquisition period. IGR measures the rate at which a firm grows without any form of external financing. SGR measures the growth rate of a firm by taking into consideration its external and internal source of financing while maintaining a constant debt equity ratio.

$$IGR = \frac{Return\ on\ Assets}{1 - (Return\ on\ assets \times b)} \quad (9)$$

$$SGR = \frac{Return\ on\ Equity}{1 - (Return\ on\ Equity \times b)} \quad (10)$$

Where b = retention ratio (1-Dividend Pay-out Ratio).

3.5. Shareholders Ratio

One of the reasons why firms merge or acquire another is to maximise shareholder value. This financial ratio will indicate whether GGBL shareholders' value was maximised after the acquisition or not. The ratios are:

$$DividendPer\ Share = \frac{Total\ Dividend}{Number\ of\ shares\ outstanding} \quad (11)$$

$$Earnings\ per\ share = \frac{Profit\ after\ tax}{Shares\ Outstanding} \quad (12)$$

3.6. Limitations of Methodology

Financial ratio analysis has some drawbacks. First of all, ratios are used as tools for quantitative analysis of a company and as such the qualitative aspect such a product quality, management competence and customer service cannot be measured. These factors affect financial performance of the company but because they are qualitative in nature, ratio analysis cannot be used on them.

Again, ratios are distorted by inflation. This makes it difficult to predict a trend when the current inflation rate fluctuates in the year in which the financial statement was prepared and also when ratios are used as a benchmark.

4. Results and Analysis

The financial data obtained will be analysed in order to know the long term effect of the acquisition. The data include five years before the acquisition, which is 1999, 2000, 2001, 2002 and 2003 and five years after the acquisition which is, 2005, 2006, 2007, 2008 and 2009. The year in which the acquisition occurred will not be considered due to different accounting methods used which can affect financial measurement in the year of acquisition (Evans and Bishop, 2001).

4.1. Analysis of Profitability Ratios

Table 1 below shows the calculated profitability ratios for the pre-acquisition period. The table indicates that NPM decreased significantly from 35.22 per cent in 1999 to 8.89 per cent in 2000. This was due to a staggering 304.89 per cent fall in net profit before taxes in 2000. It further shows that ROE fell sharply from 56.1 per cent in 1999 to 17.75 in 2000. Although, the total equity increased between these pre acquisition periods, net profit before taxation fell sharply from ¢33,993,104 to ¢11,149,452 and this affected ROE. There was a decrease of 204.89 per cent in net profit before taxation that year.

Table 1. Pre-acquisition profitability ratios for GGL (1999-2003)

Years	Ratios			
	GPM (%)	NPM (%)	ROA (%)	ROE (%)
1999	30.03	57.28	56.10	35.22
2000	6.98	53.34	17.75	8.89
2001	20.48	45.30	37.38	13.84
2002	29.60	44.15	56.52	18.75
2003	23.50	40.67	61.21	18.00

Source: Authors' calculations based on financial statements

Table 1 further indicates that in terms of GPM, there was a decreasing trend of 57.28 per cent in 1999 to 40.67 in 2003. The decreasing trend is as a result of increasing cost of sales before the acquisition. Although, turnover increased annually during the pre-acquisition period, the ratios derived fell each year because there was a significant increase in cost of sales over the pre-acquisition period. Cost of sales increased by 78 per cent from 2000 to 2001 and further increased by 50 per cent between 2002 and 2003.

ROA fell sharply from 30.03 per cent in 1999 to 6.98 per cent in 2000. This sharp decline can be attributed to the fall in net profit over the two periods. ROA increased from 20.48 per cent in 2001 to 29.6 per cent in 2002. This was because the total assets and net profit in these two years increased significantly.

The results of the profitability ratios after the merger is depicted on Table 2 below.

Table 2. Post-acquisition profitability ratios for GGBL (2005-2009)

Years	Ratios			
	GPM (%)	NPM (%)	ROA (%)	ROE (%)
2005	41.26	17.00	13.55	31.00
2006	42.51	18.19	15.84	36.68
2007	34.55	12.35	11.45	26.50
2008	38.64	14.44	12.23	12.33
2009	34.18	7.98	7.56	7.56

Source: Authors' calculations based on financial statements

Table 2 shows GPM increased marginally from 41.26 per cent in 2005 to 42.51 per cent in 2006. This was because the acquisition brought about a higher increase in turnover of about 21.03 per cent. This was due to the promotional and marketing activities GGBL embarked on to increase turnover after the acquisition occurred (GGBL annual report, 2005). Cost of sales increased by 119 per cent in 2005 as compared to 2003 but it was overshadowed by a 121 percent increase in turnover. There was a huge increase in cost of sales from 2006 to 2009 and that affected profitability. A table depicts a decreasing trend in GPM over the post-acquisition period.

In terms of NMP, there was a marginal increase from 17 per cent in 2005 to 18.19 per cent in 2006. After 2006 however, there was a decreasing trend in NPM throughout the post-acquisition period. This was as a result of the increase in General selling and administrative expense during that period. Also, interest charges on the loan facility were increased significantly during that period, thus reducing profit after expenses. Thus NMP dropped from as high as 18.19 percent to as low as 7.98percent during the post-acquisition periods.

Table 2 further depict that ROA decreased from 23.5 per cent in 2003 to 13.55 per cent in the first post-acquisition period. It increased marginally to 15.84 per cent in 2006 and thereafter decreased to 7.56 per cent in 2009.

ROE decreased from 31 per cent in the first post-acquisition period to 36.68 in the second post acquisition period. ROE thereafter shows a decreased trend during the post-acquisition period due to a fall in equity over those years.

The table thus shows a general decreasing trend in profitability during the post-acquisition period.

4.2. Analysis of Liquidity Ratios

The results of the liquidity ratios computed in terms of current and quick ratios are depicted on the Figure 1 below.

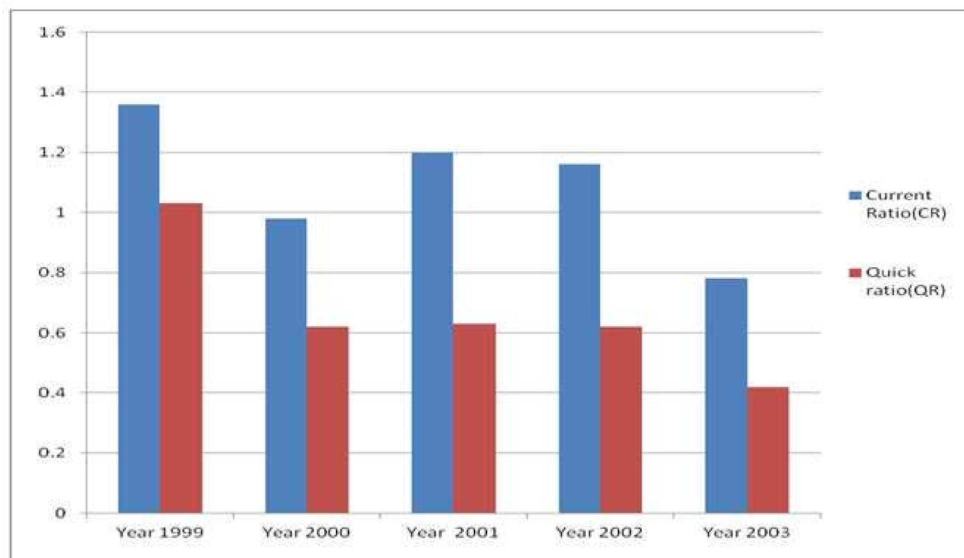

Figure 1. A bar graph showing liquidity ratios for GGL (1999-2003) the pre-acquisition period

Current ratio over the period decreased from 1.36 in 1999 to 0.78 in 2003.it dropped significant in 2000 due to an exceptional increase in the bank overdraft. Current liabilities increased by 97per cent, between 1999 and 2000. Current ratio improved marginally from to 0.98 in 2000 to 1.2 in 2001 and thereafter there was a persistent decline to the end of 2003.

Quick ratio on the other hand decreased significantly from 1.03 in 1999 to 0.62 in 2000. It increased marginally by one percentage point in 2001 and thereafter dropped persistently.

Figure 1 shows that Current Ratio and Quick Ratio generally decreased in the pre-acquisition period except in 2001 where it increased to 1.2 and 0.6 respectively. A decreasing Quick ratio means that GGL in the pre-acquisition period was not in a good position to discharge its short term liabilities as and when they fall due.

Results of the post-acquisition liquidity ratios are depicted on the chart below.

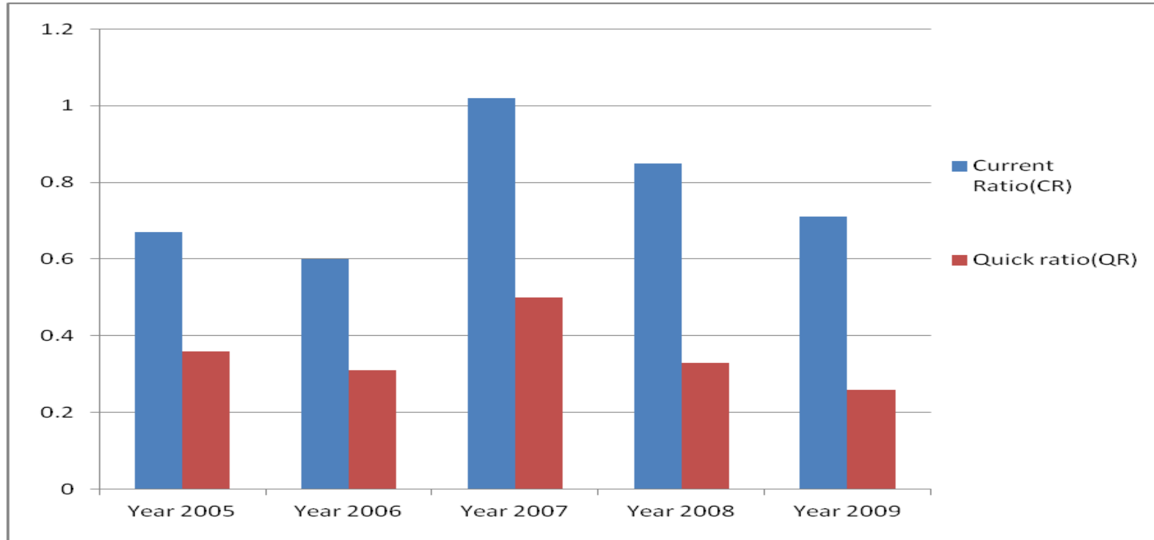

Figure 2. Bar graph showing the liquidity ratios for GGBL (2005-2009) the post-acquisition period

Figure 2 shows that there was also a significant improvement in both current and quick ratios in 2007. This was as result of decrease in short term loans and overdraft used to finance the acquisition. Short term loans decreased from GH¢62,428 in 2006 to GH¢23,669 in 2007 representing a 62.08 per cent decrease. Bank overdrafts decreased from GH¢223,126 to GH¢110,085 in the same period representing a 102.69 per cent decrease. The chart on the other hand shows current ratio decreased from 1.02 in 2007 to 0.85 in 2009 and further decreased 0.71 in 2009. The quick ratio also reduced from 0.50 in 2007 to 0.33 in 2008 and further decreased to 0.26 in 2009.

The worsen liquidity ratios after 2007 was mainly due to Short term loans and trade payables. This was because short term loans increased from GH¢9,000,000 in 2008 to GH¢27,000,000 in 2009. This represented a 200 per cent increase. Trade payables increased from GH¢14,761,000 in 2008 to GH¢35,148,000 in 2009. On the other hand, bank overdraft decreased from GH¢8,557,000 in 2008 to GH¢6,706,000 in 2009. This represented a 27.06 per cent decrease.

These indicate that after the acquisition, current and quick ratios also generally show a decreased trend over the period. This trend posed a challenge to GGBL's

operations. The decreasing liquidity is evidenced from the short term borrowings used to finance the working capital in the acquisition. Current liabilities increased significantly during the pre-acquisition period.

4.3. Analysis of Leverage Ratios

The results of the leverage defined in terms of Debt equity and Debt ratios are depicted on Table 3 and Table 4 below.

Table 3. Pre acquisition leverage ratios for GGL (1999-2003)

Years	Ratios	
	Debt Equity Ratio (DER)	Debt Ratio (DR)
1999	8.99	0.06
2000	12.62	0.04
2001	7.57	0.08
2002	10.08	0.07
2003	22.25	0.05

Source: Authors' calculations based on financial statements

From Table 3, it is seen that DER increased from 9:1 in 1999 to as high as 22:1 in 2003. This was due to huge investments in fixed asset over the period. It is important to note that their bank overdraft increased significantly from ¢1,651,615 in 1999 to ¢19,774,655 in 2000. This was a significant 1097.27 per cent increase within that two year period to finance their operations. The DER figures give an indication that GGL relied mainly on debt to fund its operations as opposed to equity. In terms of DR, Table 3 indicates it to be minimal during the pre-acquisition periods. This was because GGL relied heavily on short term external finance to fund their operations during the five year pre acquisition period. Creditors increased annually for the whole pre acquisition period.

Post-acquisition leverage ratios are depicted on Table 4 below.

Table 4. Post-acquisition leverage ratios for GGBL (2005-2009)

Years	Ratios	
	Debt Equity Ratio (DER)	Debt Ratio (DR)
20005	2.15	0.11
2006	2.60	0.03
2007	2.59	0.24
2008	3.55	0.18
2009	5.66	0.04

Source: Authors' calculations based on financial statements

Table 4 shows that DER reduced significantly compared to the pre-acquisition period. The trend in the DER on the other hand shows gradual annual increases in the DER. The reduced DER was to be expected after the acquisition period because of new injected equity. The company's operations are now mainly finance from the injected equity rather than debt.

DR on the average shows an increasing trend during the post-acquisition period from 2005 to 2009. The trend as depicted with the analysis above shows that the acquisition was hugely financed with debts and borrowings that were secured by Heineken BV, the majority shareholder of the firm. The short and medium term loan was used to finance the increase in working capital.

4.4. Analysis of Shareholders Ratios

The results of the computations of the earning per share and dividend per share are displayed in Figure 3 and Figure 4 below.

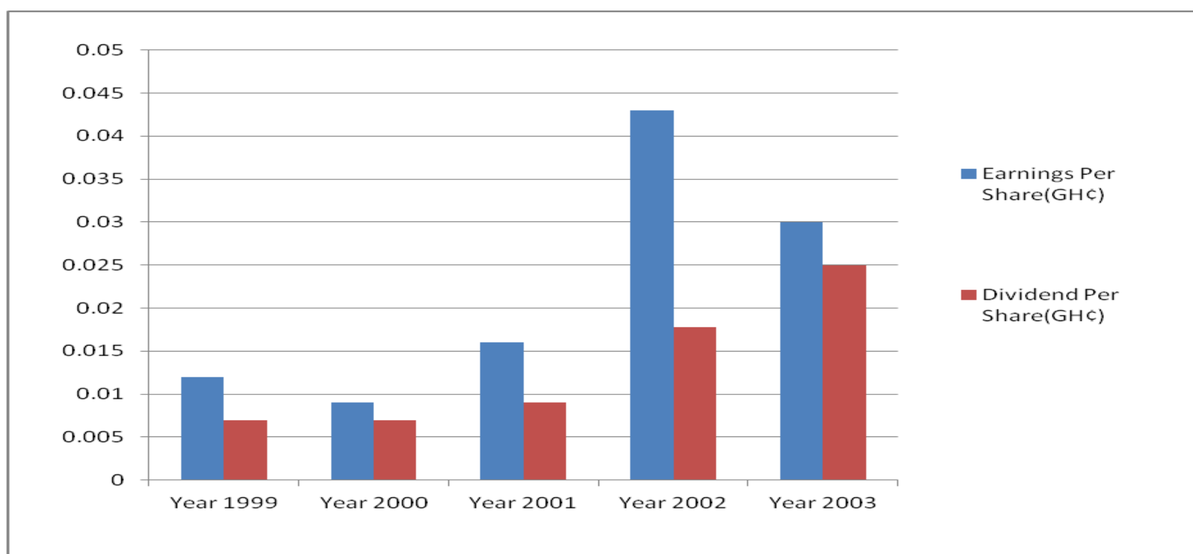

Figure 3. A bar graph showing shareholders' ratios for the pre-acquisition period

Source: Researchers elaboration from Guinness Ghana Limited annual financial statements, 1999 to 2003

The Figure 3 shows that in the pre-acquisition period, EPS decreased marginally in the 2000. It increased marginally in the 2001 and fell significantly in the 2002. Figure 3 further indicates DPS remained the same, GH¢0.007 in the 1999 and 2000 but increased throughout the years to the 2003.

This was due to increasing Net profit been made by GGL during the pre-acquisition period.

GGL share prices were GH¢0.009 in 2nd January, 2001 and by the close of the year, December 31, 2001 it had increased marginally to GH¢0.0901 (Databank Quarterly Report, 2001). This accounts for the slight increase in GBL's EPS in 2001.

The results of the post-acquisition period are depicted on Figure 4 below.

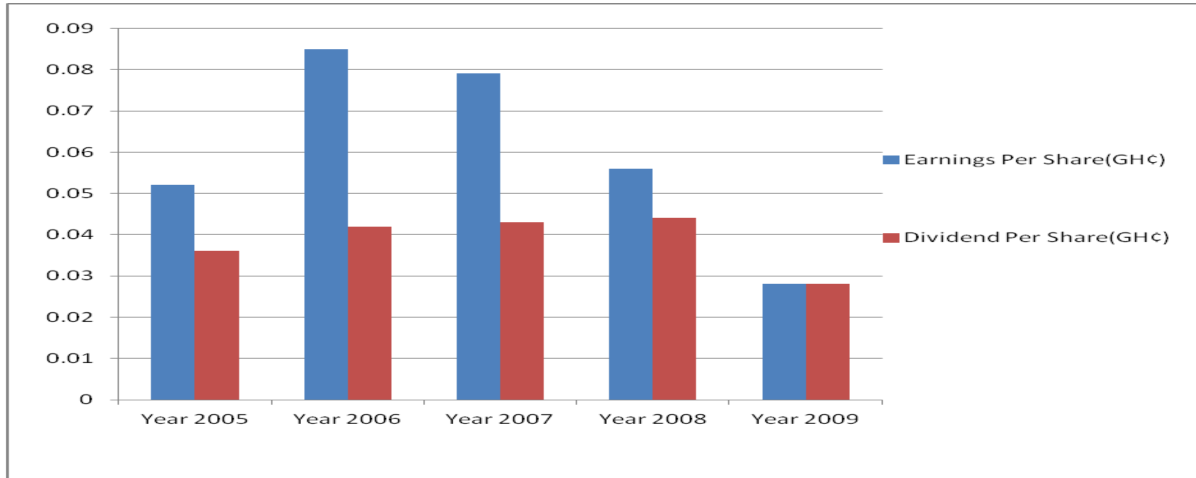

Figure 4. A bar graph showing shareholders' ratios for the post acquisition period

Source: Guinness Ghana Limited annual financial statements, 2005 to 2009

Figure 4 shows EPS increased significantly during the first two years in the post-acquisition period but fell in the last three years of the post-acquisition period. DPS increased significantly due to the high dividend paid out in the post-acquisition period. This confirms the assertion by Evans and Bishop (2001) that shareholders benefit from a higher DPS when an acquisition is successful.

From the chart, it is seen that EPS increased from GH¢0.052 in 2005 to GH¢0.085 in 2006. It however decreased to GH¢0.079 in 2007 and GH¢0.056 in 2008 and finally fell to GH¢0.028 in 2009. DPS increased throughout the four post acquisition years and fell in the 2009.

There was a continuous increase in DPS from 1999 to 2006 as a result of good performance of their share prices during that period (Databank quarterly report, 2005). GBL's share price was around GH¢1.275 in June 2004 when the acquisition was consummated. The company's share prices increase to GH¢2.715 representing a 113 per cent increment in the first three years of the post-acquisition period. In June, 2011, GGBL share price had fallen to GH¢1.46 per share.

4.5. Analysis of Growth Ratios

The growth ratios computed are displayed on Figure 5 and Figure 6.

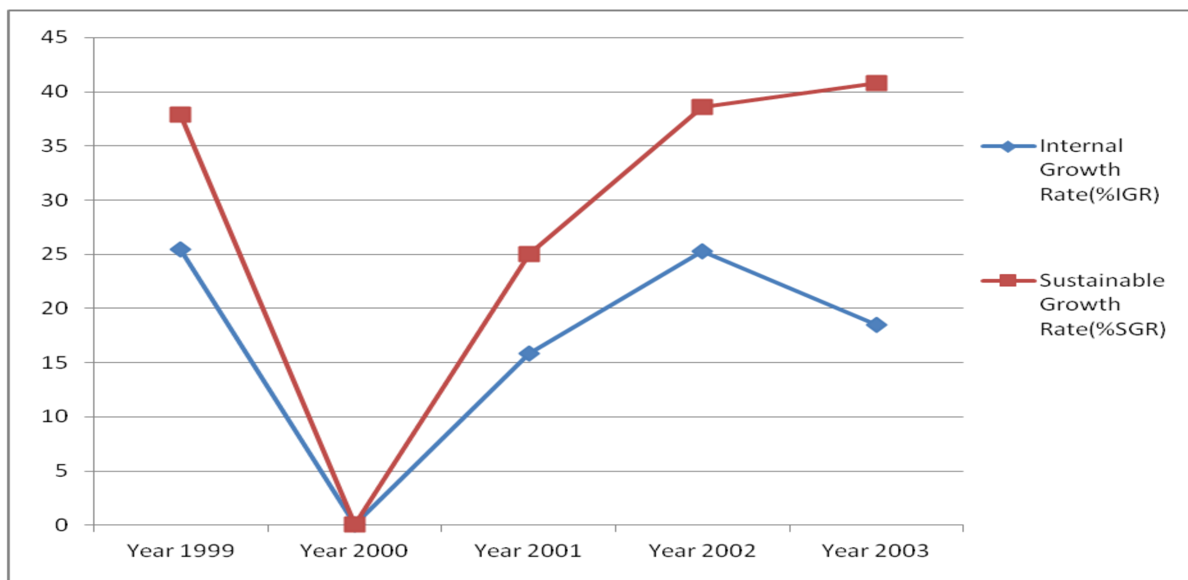

Figure 5. A line chart showing Growth ratios (IGR and SGR) for the pre-acquisition period

Source: Authors' calculations based on financial statements, 1999 to 2003

According to Du Pont Identity, factors such as profit margins, total asset turnover, financial policy and dividend policy affect the growth rate of a firm. Figure 5 indicates that IGR fell significantly from 25.47 per cent in 1999 to 0.04 per cent in 2000. SGR also fell in that period from 37.92 per cent in 1999 to 0.11 per cent in 2000. This was because net profit before taxation decreased significantly from ¢33,993,104 in 1999 to ¢11,149,452 in 2000. This was about a 204.89 per cent decrease in profits during the two year period. The fall in SGR implies a fall in financial leverage of GGBL because Return on Equity fell from 56.1 per cent in 1999 to 17.75 per cent in 2000.

The chart further shows that IGR increased from 15.88 per cent in 2001 to 25.31 per cent in 2002. In that same period, SGR increased from 25 per cent in 2001 to 38.6 per cent in 2002. From the trend established in Figure 1, it is seen that SGR is growing at a faster rate than IGR. The rise in SGR was due to an increase in net profit from ¢26,388,396 in 2000 to ¢48,172,841 in 2002. In that same period, total asset increased from ¢57,015,905 to ¢78,093,020. Debt equity ratio increased from 0.83 in 2001 to 0.91 in 2002 and as such this created more additional debt financing options. This accounts for the improvement in SGR over that period.

Again the chart shows that during the pre-acquisition period, 1999 and 2000, SGR increased at a faster rate as compared to IGR. This shows that Guinness Ghana Limited, the acquiring firm was growing at a considerable rate without having to depend on external source of finance.

In the post-acquisition period, IGR increased from 9.4 per cent in 2005 to 12.55 per cent in 2006. SGR also increased from 19.83 per cent to 25.82 per cent. This was because net profit increased from GH¢157,402 in 2005 to GH¢226,529 in 2006. This can be attributed to financial synergies generated immediately after the acquisition. This buttresses the assertion made by Evans and Bishop, 2001 that an acquiring firm's growth rate can increase as a result of positive incremental cash flows and financial synergies generated from an acquisition. Also, total asset increased from GH¢308,773 in 2005 to GH¢385,954 in 2006. This is depicted on the chart below.

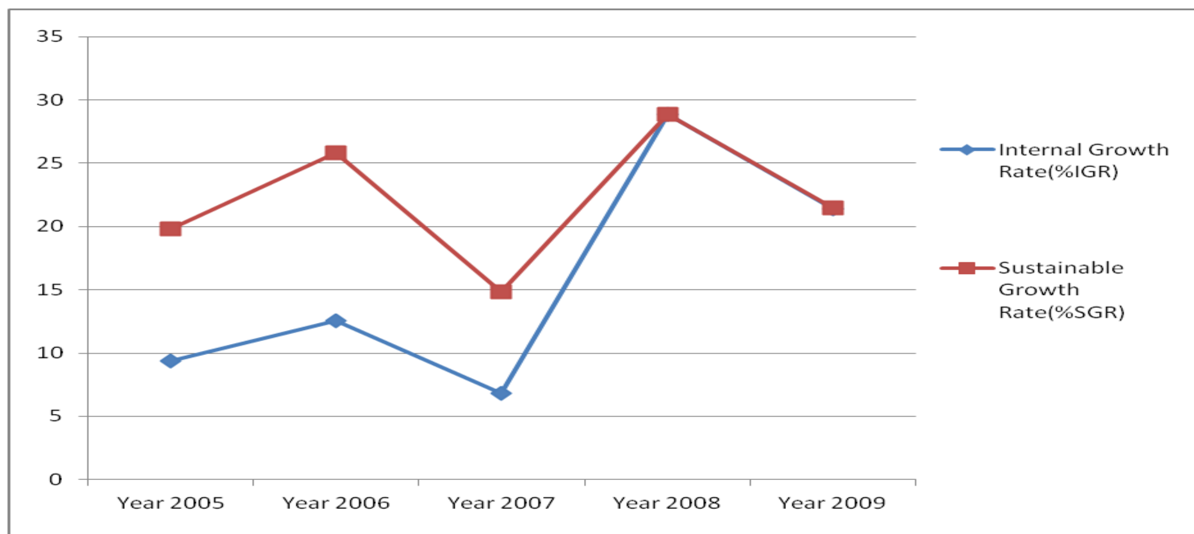

Figure 6. A line graph showing Growth ratios (IGR and SGR) for the post acquisition period

The trend established in Figure 6 shows that IGR and SGR decreased in 2007 as compared to 2006. This was as a result of a decrease in net profit from GH¢190,530 in 2006 to GH¢1,551,188 in 2007. Debt equity ratio decreased from 1.34 in 2006 to 1.31 in 2007. The decrease in IGR, SGR and debt equity ratio shows that the firm's growth rate was low in the year due to a continuous decrease in IGR and SGR. IGR increased from 6.83 percent to 28.85 per cent in 2008 and fell to 21.37 per cent in 2009. Also, SGR increased from 14.84 per cent to 28.84 per cent in and fell to 21.4 per cent in 2009. GGBL's net profit fell from GH¢19,607 in 2008 to GH¢16,047 in 2009. From the analysis, it is seen that GGBL's growth rate increased as well as decreased marginally over the five year post acquisition period.

5. Conclusion

The summary of findings from the study are that firstly, there was a general downward trend in the profitability ratios, namely GPM, NPM, ROE and ROA after the acquisition, implying a decline in the profitability of the firm after the acquisition. Secondly, liquidity of the company deteriorated after the acquisition .This is evidenced by the decline in both the current and quick ratios during the post-acquisition period compared with the pre-acquisition period. Thirdly, the debt ratio fell sharply in the post-acquisition period compared with the pre-acquisition period, a good indication that the post-merger debt ratio seems to be better than the pre-acquisition period all things being equal.. Fourthly, the earnings per share was constantly increasing during the pre-acquisition period, however this trend was reversed after the post-acquisition period. Dividend per share saw a persistent increase in both the pre and post-acquisition periods. Again whiles EPS was declining in the post-acquisition period the DPS was rather increasing. This rise in DPS could be attributed to the firm having a high pay-out policy. Both Internal growth rate and sustainable growth rate fell sharply in 2000 and thereafter increased throughout the pre-acquisition period. IGR fell in the last pre acquisition period. This shows that Guinness Ghana Limited concentrated more on achieving a high growth rate without resorting to external finance while

maintaining a constant debt equity ratio in the pre and post-acquisition period.

Generally, the acquisition brought about an increase in growth rate due to the high market performance of GGBL's products after the acquisition. For instance in 2003, Malta Guinness and Amstel Malta had a market share of 20 per cent and 40 per cent respectively. After the acquisition, Malta Guinness and Amstel Malta had a market share of 45 per cent and 60 per cent respectively in 2005 (GGBL annual financial magazine, 2003 and 2005). In absolute terms, turnover made was significantly high in all the five year post acquisition period in relation to cost of sales and general selling and administrative expenses.

In conclusion, the acquisition did not really have a huge impact or a significant effect on GGBL's profitability. This was due to the increasing general selling and administrative expenses over the post-acquisition period, the payment of high interest rates on overdraft and loans that Heineken BV International secured to finance the acquisition and fund working capital. This buttresses the assertion made by Evans and Bishop (2001) that mergers and acquisitions do not always result in huge profits being made after the transaction is completed.

From the study, one of the reasons for the acquisition was to generate synergy. Revenue enhancement, being a source of synergy and determinant of acquisition was achieved. This is because there was a persistent increase in turnover over the post-acquisition period. Turnover grew by an average of 23.87 per cent over the five year post acquisition period.

The main objective of the acquisition was to reduce cost of operation, enhance market power and profitability. It is seen from the analysis that general selling and administrative expense was on a rise in the post-acquisition period, except in 2007 where it fell to GH¢23,059,000. Also, the cost of sales incurred in relation to the turnover was high over the post-acquisition period. This shows that GGBL's cost of operation has been on the increase after the acquisition.

GGBL had a combined market share of 17.5 per cent in the brewery industry in 2006(GGBL financial report 2006). Earnings per share and dividend per share increased in the post-acquisition period that is from 2005, 2006 and 2007. However, DPS still increased in 2008 but fell in 2009. This trend shows that shareholders were receiving high dividends in the three year period after the acquisition. This buttresses the point made by Ross, Westerfield and Jordan, 2001 that shareholders wealth maximisation is a reason why a company acquire another.

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