Sri Lanka Deals Insight
2022 Outlook

March 2022
Table of Contents

1. Executive Summary 03
2. M&A Trends 10
3. Private Placements 16
4. IPOs 18
5. PwC Sri Lanka Deals Advisory 21
1. Executive Summary
Economic optimism and abundant capital set the stage for strong global Deals activity

After a record-breaking year for M&A in 2021, optimism for another supercharged year in 2022 remains, despite growing market headwinds.

- Global M&A activity hit new highs in 2021. The number of announced deals exceeded 62,000 globally, up an unprecedented 24% from 2020.
- Publicly disclosed deal values reached all-time highs of USD 5.1 tn, including 130 mega deals (USD1Bn+), a whopping 57% higher than in 2020.
- The often-frenzied M&A activity in 2021 was fuelled by intense demand for technology, for digital and data-driven assets and the pent-up deal-making demand from 2020 that was unleashed.
- The trifecta of low operating costs, lower regulation and taxes and even lower interest rates have over the past decade, helped companies achieve year-on-year earnings growth, pushed stock markets to seemingly endless record highs, and generally spurred M&A.
- As each of those pillars is facing pressure for the first time in a decade, as the pandemic has disrupted the status quo, higher interest rates, rising inflation, increased taxes and greater regulation could introduce structural or financial hurdles or delays for deals in 2022.
- We are already seeing greater volatility in financial markets, further disruptions in the global supply chains and increased levels of fiscal debt, as shockwaves from the pandemic continue to play out globally.
- As we’ve already learned from the pandemic, dealmakers should stay alert to how the new accelerated pace of change can bring these factors into play earlier and with greater impact.

Outlook

- Overall, we remain optimistic about the year ahead, with deal volume and valuations continuing to reflect a dynamic market and an abundance of capital. On the one hand, with technological adaptation now a consistent pressure across all industries, we believe that competition for targets will be strong. Companies will also seek to maintain competitive advantage and reinvest using divestitures of non-performing businesses across global markets.
- On the other hand, dealmakers must keep close attention on a number of expected and potential disruptions, which could signal delays in deals getting done, including volatility in financial markets and macroeconomic headwinds. As these and other risks mount for CEOs and institutional investors, robust plans for M&A value creation are more important than ever.
PwC ranked Global #1 M&A Advisor by Volume for 2021 by MergerMarket, Thomson Reuters and Bloomberg

<table>
<thead>
<tr>
<th>Advisor</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>APAC ranking 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>PwC</td>
<td>611</td>
<td>520</td>
<td>720</td>
<td>1</td>
</tr>
<tr>
<td>Deloitte</td>
<td>589</td>
<td>513</td>
<td>662</td>
<td>8</td>
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<td>KPMG</td>
<td>471</td>
<td>441</td>
<td>619</td>
<td>3</td>
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<tr>
<td>Goldman Sachs</td>
<td>351</td>
<td>367</td>
<td>604</td>
<td>5</td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
<td>290</td>
<td>296</td>
<td>600</td>
<td>7</td>
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<tr>
<td>Rothschild &amp; Co.</td>
<td>313</td>
<td>290</td>
<td>522</td>
<td>13</td>
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<tr>
<td>EY</td>
<td>395</td>
<td>417</td>
<td>513</td>
<td>2</td>
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<tr>
<td>Morgan Stanley</td>
<td>270</td>
<td>278</td>
<td>422</td>
<td>4</td>
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<tr>
<td>Houlihan Lokey</td>
<td>237</td>
<td>253</td>
<td>414</td>
<td>30</td>
</tr>
<tr>
<td>Bank of America</td>
<td>214</td>
<td>252</td>
<td>341</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Mergermarket
Optimism abounds for Deals activity in Sri Lanka for 2022, despite economic and market headwinds

The factors that contributed to the Deals market in 2021 will remain influential for deal-making in 2022.

- We witnessed Deal activity heading towards pre-Covid levels with 30+ announced deals in 2021, with publicly disclosed deal value exceeding LKR 33 bn.
- The number of megadeals - with a deal value of LKR 4 billion or more — was recorded as 3 with a total announced value of almost LKR 17 bn.
- Energy deals continued to dominate the landscape, as companies sought to acquire undeveloped licenses of mainly solar projects driven by the government’s ambitious plan to increase generation of clean energy and provision of tax incentives.
- We also observed active investments from Development Finance Institutions into the retail and financial services sector, intending to support socio-economic growth through the upliftment of the SMEs.
- Economic optimism remains high, there’s a strong deals pipeline, capital is in abundance, and companies across all industries are looking to leverage technology for the next wave of growth.
- On the corporate side, we expect M&A decision-making to be driven by the strategic shift to digital, innovative and new disruptive business models.
- With market conditions demanding a greater value creation mindset across the boardroom, CEOs will also focus on divestment, as they rebalance their portfolios for longer-term profitability and growth.

Capital availability

- **Corporate Cash:** Measures to protect liquidity and strengthen balance sheets at the onset of the pandemic resulted in corporates increasing their cash from increased borrowings, reduced shareholder payouts and a focus on optimising cash flow from operations. Further with the proactive measures and corporate resilience, we witnessed many companies posting significant growth in earnings in 2021.
- **Interest rates remained relatively low:** In spite of recent interest rate increases being announced, rates remain relatively low compared to historical data. However, increased cost of capital will be a concern for some buyers and may create pressures for debt-heavy companies.

“Despite economic headwinds we have witnessed high number of deals in 2021, and I expect M&A to continue to play a critical role for companies facing increasing pressure from stakeholders to unleash the value in their portfolios and their businesses.”

Ruvini Fernando, Director - Deals Strategy
After a strong year of Deals* in 2021, what are dealmakers predicting for 2022?

Sri Lanka Deal Volumes & Values, 2017 - 2021

- 32% increase in Deal Volumes
- 12% increase in Deal Values between 2021 and 2020

* Deals include M&A and Private placements
Source: S&P Capital IQ, Public information and PwC Analysis
PwC’s predictions for Deals in 2022

Driving factors

**Government policies**

- **Self sufficiency**: The government aims to be self-sufficient in:
  - Energy by increasing supply of renewable energy to 70% of total requirement by 2030.
  - Pharmaceutical by producing 50% of the total drug requirement of the country in 4 years time.
  - Food products to reduce the dependency of imports.

- **IPOs**: After a record year of IPOs in 2021, CSE is considering the extension of the concessions to encourage more companies to go public.

- **Green nation**: As the government promotes organic farming using organic fertilisers, presenting opportunities for companies to partner with global companies in setting up facilities to produce organic fertiliser.

- **CBSL Masterplan**: The Central Bank of Sri Lanka’s masterplan for consolidation of Non-bank financial institutions (NBFI) is being fast-tracked to improve compliance with regulatory capital requirements.

**Macroeconomic conditions**

- **Forex crisis**: With a dearth of foreign currency in the country, government has incentivised export earnings. Further, import dependent businesses are looking to complement their outflows with potential export earnings (through M&A).

- **Cross border transactions**: With the current economic headwinds and constraints, large companies are looking to expand to international markets to create value for their shareholders and reduce country specific risks.

Outlook

- **Attracting FDIs**: Port City Colombo is expected to attract large FDIs into Sri Lanka. We are witnessing active participation by Sri Lankan entities, who will require partnerships with international companies for investments. We expect this trend to continue in 2022.

- **Need for capital**: Capital will be required to support:
  - Companies looking to expand to international markets and domestic capacity growth
  - Banks and NBFI to meet the regulatory requirements by 2023

- **IPOs**: Per CSE, there are six IPO’s in the pipeline for 2022, (excluding Hela, that closed with an oversubscription of 5.4x). With this excess capital, more companies are looking forward to listing on the exchange.

- **Global impact**: The ongoing international conflict and sanctions on Russia is expected to impact the deal activities due to the volatility in global markets. This will make investors seek safe assets and economies, thus potentially affecting the inbound deals flow to Sri Lanka. The global turmoil will also create opportunities for a segment of investors who wish to enter risky economies with long term growth potential at an attractive price point.
Key themes driving Deals continue to evolve

Divestitures of non-core assets

With macro headwinds on the horizon, companies may attempt to have a more leaner balance sheet and agile business model to weather any potential storms.

Companies may look at shedding non core assets and businesses to be better positioned for a rainy day. Potential drivers of non core assets include:

- **Inflation** - the double digit inflation mainly from supply side issues seen in late 2021 may lead to wage pressures. This may also drive higher technological integration.

- **Interest rates** - after a glut of cheap credit over the past 24 months we may witness a tightening in monetary policy, which may not be favourable for highly leveraged companies.

Government policies and incentives

- **Clean energy**: The government’s vision to increase the generation of renewable energy to 70% by 2030, and the allowance of tax holiday for seven years under the National Budget 2020.

- **Building technology hub**: Sri Lanka has the potential to become one of the top outsourcing destinations in the world, backed by a quality talent pool and attractive tax benefits. The technology sector in Sri Lanka has seen significant growth post-pandemic due to the attractive tax benefits and talent availability. These benefits have resulted in an uptake of Indian and European technology majors looking to either set up in Sri Lanka or acquire existing operations driving FDI and M&A activity in this sector.

- **Upliftment of SMEs**: Recognising SMEs as the sector for uplifting the economy attracted financial institutions to raise fresh capital from foreign institutions to support the sector's growth, including support for women empowerment and youth partnership.

- **Global logistics hub**: Sri Lanka has ambitions to move up from being a south Asia transhipment hub to a global maritime and logistics center on par with Dubai and Singapore.

- **Listing in CSE**: The tax concessions offered in the National Budget 2021 resulted in an increased number of IPOs during the year. Sri Lanka’s 2021 budget introduced a 50% tax concession for companies listing on the CSE and a corporate tax rate of 14% for the subsequent three years upon listing.
2. M&A Trends
M&A activity has rebounded and remains strong in 2021 with some notable mega deals driving announced deal values.

- M&A activities rebounded in 2021, with 26 deals announced, which is an increase of 32% from 2020. Publicly disclosed deal value exceeded LKR33 bn, including 03 megadeals.

- M&A activity in 2021 was driven by divestitures of underperforming or non-core businesses, government policies on developing green energy & creating a logistics hub, and companies' desire to earn revenues in foreign currency.

**Megadeals***

- Three megadeals were announced in 2021 and recorded a total announced value of LKR17 bn, representing 52% of the total announced deal value in 2021.

* Megadeals refers to Deal Value exceeding LKR4 bn.

Note: Values of 21 delas were not disclosed.

Source: S&P Capital IQ and PwC Analysis (based on publicly announced deal information)
Inbound M&A Volumes & Values, 2019 - 2021

- 2021 saw 04 inbound M&A, including 02 megadeals. The M&A activities were largely contributed by global transactions.

- Key transactions in 2021 include:
  - LKR8.7 bn acquisition of PGP Glass Ceylon PLC by PGP Glass Private Limited.
  - LKR3.9 bn acquisition of 99x by Herkules Deal-by-Deal.
  - Acquisition of attune Consulting by Rizing, LLC.

Note: Values of 07 placements were not disclosed

Source: S&P Capital IQ and PwC Analysis (based on publicly announced deal information)

* Inbound deal refers to a foreign company/investor acquiring a Sri Lanka company.
Manufacturing and energy deals dominated the top ten M&A by deal value in 2021

### Top 10 M&A transactions, 2021

<table>
<thead>
<tr>
<th>Target</th>
<th>Buyer</th>
<th>Deal type</th>
<th>Sector</th>
<th>Deal size (LKR bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PGP Glass Ceylon PLC</td>
<td>PGP Glass Private Limited</td>
<td>Corporate</td>
<td>Materials</td>
<td>8.7</td>
</tr>
<tr>
<td>JF&amp;I Packaging (Pvt) Ltd</td>
<td>Consortium led by Technomedics International (Pvt) Ltd</td>
<td>Corporate</td>
<td>Materials</td>
<td>4.3</td>
</tr>
<tr>
<td>South Asia Textiles Limited</td>
<td>Hayleys Fabrics PLC</td>
<td>Corporate</td>
<td>Consumer durables and apparels</td>
<td>4.0</td>
</tr>
<tr>
<td>99x</td>
<td>Herkules Deal-by-Deal</td>
<td>Financial investor</td>
<td>Technology</td>
<td>3.9</td>
</tr>
<tr>
<td>Prime Finance PLC</td>
<td>HNB Finance PLC</td>
<td>Corporate</td>
<td>Diversified Financials</td>
<td>2.1</td>
</tr>
<tr>
<td>Panasian Power PLC</td>
<td>RIL Property PLC</td>
<td>Corporate</td>
<td>Utilities</td>
<td>1.7</td>
</tr>
<tr>
<td>Spectra Logistics (Pvt) Ltd</td>
<td>GAC Logistic (Pvt) Ltd</td>
<td>Corporate</td>
<td>Transportation &amp; logistics</td>
<td>1.3</td>
</tr>
<tr>
<td>Hapugastenne Plantations PLC</td>
<td>Browns Investments PLC</td>
<td>Financial investor</td>
<td>Food Beverage &amp; Tobacco</td>
<td>1.2</td>
</tr>
<tr>
<td>Waltrim Energy Ltd</td>
<td>Aitken Spence PLC</td>
<td>Corporate</td>
<td>Utilities</td>
<td>0.9</td>
</tr>
<tr>
<td>Udagussellawa Plantations PLC</td>
<td>Browns Investments PLC</td>
<td>Corporate</td>
<td>Food Beverage &amp; Tobacco</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: S&P Capital IQ and PwC Analysis (based on publicly announced deal information)
Technology and retail deals dominated the top M&A by announced deal value in 2021

### Top M&A transactions, 2021 - Values unannounced

<table>
<thead>
<tr>
<th>Target</th>
<th>Buyer</th>
<th>Deal type</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>attune Lanka (Pvt) Ltd</td>
<td>Rizing, LLC</td>
<td>Corporate</td>
<td>Technology</td>
</tr>
<tr>
<td>amanté</td>
<td>Reliance Retail Ventures Ltd</td>
<td>Corporate</td>
<td>Consumer durables and apparels</td>
</tr>
<tr>
<td>Orik Corporation (Pvt) Ltd</td>
<td>Vidullanka PLC</td>
<td>Corporate</td>
<td>Utilities</td>
</tr>
</tbody>
</table>

Source: S&P Capital IQ and PwC Analysis (based on publicly announced deal information)
Energy and export-oriented M&A saw a surge in volumes and values in 2021 whereas sectors hardest hit by COVID-19 continued to struggle.

The M&A activity in 2021 was fuelled by intense demand for utilities (mainly renewable energy) and export-oriented manufacturing companies.

A total of 11 M&A deals were announced in the above two sectors with a combined deal value of LKR19 bn.

* Others represent Transportation & logistics, Professional services, Education, Engineering & construction, Hospitality & leisure sectors, with one deal under each sector.

Note: Bubble size represents deal volume in 2021; Values of 22 deals were not disclosed
Source: S&P Capital IQ and PwC Analysis (based on publicly announced deal information)
3. Private Placements
Private placements in 2021 were driven by foreign investors into financial services and retail sectors

The number of announced placements in 2021 was 06, a marginal increase from 2020. Publicly disclosed value exceeded LKR 25 bn.

The transactions were led by the Development Finance Institutions, to support socio-economic growth through the upliftment of the SME sector.

Top placements in 2021 include:
- LKR16 bn investment by Asian Development Bank in John Keells Holdings PLC
- LKR8 bn investment by Norwegian Investment Fund for developing countries in National Development Bank PLC
- LKR1 bn investment by Belgian Investment Company for Developing Countries in SANASA Development Bank PLC

Note: Values of 2 placements were not disclosed

Source: S&P Capital IQ and PwC Analyses (based on publicly announced deal information)
4. IPOs
CSE saw a record number of IPO’s in 2021 with the 50% corporate income tax incentive for new listing

- In 2021, a record number of 14 companies listed in the Colombo Stock Exchange ("CSE"), raising over LKR12 bn of equity capital from the market, the highest ever capital raised via equity listings since 2011.
- The increased number of IPOs was due to tax concessions offered in the National Budget 2021. Sri Lanka's 2021 budget introduced a 50% corporate income tax concession for companies listing on the CSE before 31 December 2021 and a corporate tax rate of 14% for the subsequent three years upon listing.
- The excess liquidity in the market prompted many investors to seek alternative investments with low-interest rates on fixed-income assets.

Source: S&P Capital IQ and PwC Analyses (based on publicly announced deal information)
Dramatic shift in the market as most IPO’s were oversubscribed within the opening day

### Top 10 IPOs by Value, 2021

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Listing date</th>
<th>Public issue (%)</th>
<th>Oversubscription times</th>
<th>Amount raised (LKR bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WindForce Limited</td>
<td>Utilities</td>
<td>22 April 2021</td>
<td>15.00%</td>
<td>7.94</td>
<td>3.2</td>
</tr>
<tr>
<td>JAT Holdings Limited</td>
<td>Materials</td>
<td>12 August 2021</td>
<td>16.24%</td>
<td>1.78</td>
<td>2.0</td>
</tr>
<tr>
<td>Prime Lands Residencies Limited</td>
<td>Real Estate</td>
<td>08 June 2021</td>
<td>20.00%</td>
<td>1.15</td>
<td>1.0</td>
</tr>
<tr>
<td>Sarvodaya Development Finance Limited</td>
<td>Diversified Financials</td>
<td>14 December 2021</td>
<td>30.38%</td>
<td>1.12</td>
<td>1.0</td>
</tr>
<tr>
<td>LOLC General Insurance PLC</td>
<td>Insurance</td>
<td>31 December 2021</td>
<td>10.00%</td>
<td>12.23</td>
<td>0.9</td>
</tr>
<tr>
<td>Ex-Pack Corrugated Cartons Limited</td>
<td>Materials</td>
<td>10 November 2021</td>
<td>25.00%</td>
<td>11.77</td>
<td>0.7</td>
</tr>
<tr>
<td>hSenid Business Solutions</td>
<td>Application Software</td>
<td>21 December 2021</td>
<td>20.00%</td>
<td>13.50</td>
<td>0.7</td>
</tr>
<tr>
<td>Co-Operative Insurance Company Limited</td>
<td>Insurance</td>
<td>30 December 2021</td>
<td>10.09%</td>
<td>2.10</td>
<td>0.6</td>
</tr>
<tr>
<td>Capital Alliance Limited</td>
<td>Investment Banking and Brokerage</td>
<td>15 December 2021</td>
<td>12.50%</td>
<td>8.50</td>
<td>0.4</td>
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<tr>
<td>First Capital Treasuries PLC</td>
<td>Investment Banking and Brokerage</td>
<td>23 December 2021</td>
<td>5.00%</td>
<td>4.48</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Source: PwC Analyses (based on publicly announced deal information)
We’re aligned around your most enduring needs and can help you at any point in the deal cycle

### Strategy through transformation

PwC Sri Lanka Deals advisory offers a spectrum of transaction advisory services. We work with clients to originate, create, execute, and realise value from deals. Through data driven insights, PwC helps businesses realise the potential of their mergers, acquisitions and divestitures, capital markets transactions.

<table>
<thead>
<tr>
<th>Pre-Deal</th>
<th>Deal Execution</th>
<th>Post-Deal</th>
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</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td><strong>Options Evaluation</strong></td>
<td><strong>Deal Evaluation</strong></td>
</tr>
<tr>
<td>Corporate &amp; Business Unit strategy assessment</td>
<td>Market intelligence</td>
<td>Due diligence:</td>
</tr>
<tr>
<td>International growth &amp; market entry strategy</td>
<td>Target search &amp; screen</td>
<td>- Commercial</td>
</tr>
<tr>
<td>M&amp;A strategy assessment</td>
<td>Target approach strategy</td>
<td>- Financial</td>
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<tr>
<td>Portfolio strategy</td>
<td>Structuring and financing options</td>
<td>- Tax</td>
</tr>
<tr>
<td></td>
<td>Valuation &amp; modelling support</td>
<td>- Operational</td>
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</tbody>
</table>
Key contacts

Sujeewa Mudalige  
CEO, PwC Sri Lanka  
sujeewa.mudalige@pwc.com

Channa Manoharan  
Advisory Leader, PwC Sri Lanka  
channa.manoharan@pwc.com

Ruvini Fernando  
Director, Deals Strategy, PwC Sri Lanka  
ruvini.fernando@pwc.com

Aruna Perera  
Director, Corporate Finance & Valuations, PwC Sri Lanka  
aruna.perera@pwc.com

Nishadee Weragala  
Associate Director, Mergers & Acquisitions, PwC Sri Lanka  
nishadee.weragala@pwc.com

Charmaine Tillekeratne  
Director, Tax, PwC Sri Lanka  
charmaine.tillekeratne@pwc.com
Thank you!