

# DueDiligence2022

M & A IN THE DIGITAL AGE

## CASE STUDY

### Pragma: Navigating the challenges of the Turkish market

Due to a challenging economic environment and currency market volatility in recent years, foreign investors have treated investing in Turkey with greater caution.

Turkish companies are more cautious too, but many have become adept at operating in this environment. For some, they are even pursuing investments and deals despite it.

The opportunities are therefore still there. It is just that the currency market volatility Turkey has endured does make investing, and running financial due diligence, more difficult.

"This obviously has an impact on the financial statements of companies, particularly if they have foreign currency debt," says Saltuk Akbulut, managing director at investment bank, Pragma. "Such events can have a material impact on a company's finances, and, as a result, its valuation."

#### **Difficulties and Complexities**

Akbulut says there are other more persistent challenges in Turkey that can make acquisitions and deal due diligence difficult and time consuming.

Agreeing a valuation, for instance, can be a protracted process worldwide. But in Turkey, it can take longer partly due to family-owned private companies dominating the economy. They often value their company higher than the buyers; while buyers have tended to 'over-discount' their valuation due to Turkey's economic challenges, says Akbulut.

Other factors that can impact due diligence include encountering incomplete financial data sets and misleading budgets. "All of this is not so much of a challenge to overcome, but it does make it more complex



SALTUK AKBULUT  
MANAGING DIRECTOR, PRAGMA



to understand the true financial state and health of a company," explains Akbulut.

That is a core objective of due diligence, which, if done well, can help ensure the success of an acquisition. But beyond this, how much importance do Turkish companies assign to other factors, such as understanding and addressing cultural issues as part of a deal?

### Importance of Understanding

"One of the challenges in Turkey, which is also the case in Europe, is the acquirer fully understanding the management, team and culture they are investing in," says Akbulut. "This is so important but is often not seen as being as important as it should be. The car might be a great car. But is it being driven well?"

He adds: "We do see management of the buyers giving too much attention to the price of the deal, to the valuation, and not placing enough emphasis on the culture of the company they are buying, and how the business will evolve together in the future."

Asked how what could help accelerate due diligence in Turkey, Akbulut says technology, especially the use of virtual data rooms, is one area that can and has made a difference. "With VDRs you are able run the bid process with multiple bidders much more easily and efficiently than if it were done physically. The security offered by VDRs is important too. They enable you to better manage the flow of sensitive information on any deal with multiple stakeholders."

However, he adds that a more fundamental change in Turkey is needed. "Closing the gap between how many companies here operate and how private equity firms operate would help. Their focus, for example, on internal financial reporting, accounting and on strategy is something that many companies in Turkey could learn from."

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### ABOUT PRAGMA

Istanbul-based Pragma is a leading investment banking firm in Turkey providing financial advisory services on mergers and acquisitions.

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