



# COVID-19: Rebalance for resilience with M&A

**Covid-19: What to Do Now, What to Do Next**

**NOW  NEXT**

**The COVID-19 crisis is extraordinary in both its humanitarian and economic impact, but history suggests how M&A will play out. While the M&A market has contracted, companies that are making M&A moves typically outperform those that do not.**

**Forward-thinking leaders need to act now to rebalance for risk and liquidity, while assessing opportunities for resilience and growth coming out of the downturn.**



# Crises trigger an M&A shift

**The scale of the COVID-19 crisis is unprecedented, prompting global responses from governments and companies and swift resets of equity markets.**

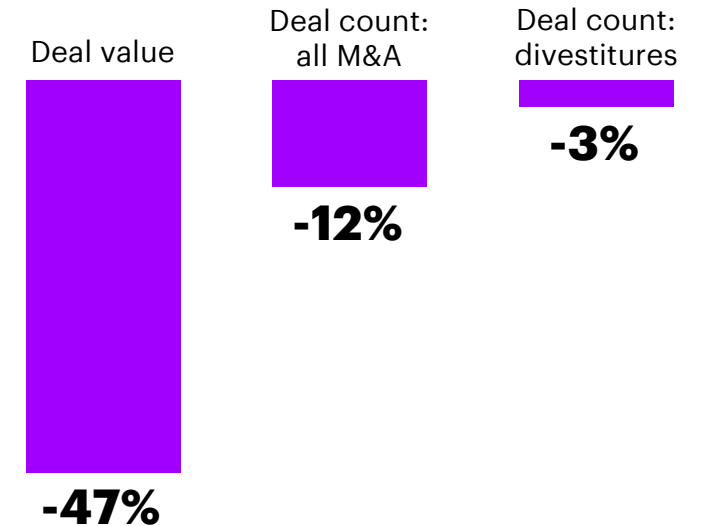
Understandably, deal value and volume contracted rapidly in the wake of COVID-19. Deal volume in the first half of 2020 dropped 49%, with deal value down 22% from the year before.<sup>1</sup> Many deals have fallen by the wayside. Marathon Petroleum's sale of its Speedway convenience stores fell through after the oil price collapse.<sup>2</sup> Xerox Holdings called off its pursuit of HP,<sup>3</sup> while SoftBank Group Corp. backed away from its planned bailout of WeWork.<sup>4</sup> The only mega-deals greater than US\$5 billion are being struck in industries that have been largely unaffected by the crisis, a notable example being the announcement of the acquisition of GrubHub by Dutch food delivery company Just Eat Takeaway, for US\$7.3 billion.<sup>5</sup>

This sharp drop is consistent with other economic shocks, where the dip in deal value has approached 50%.<sup>6</sup> Liquidity is held at a

premium, valuations fluctuate, credit tightens, and companies focus inwardly. However, the drop is historically most pronounced with mega-deals, whereas smaller deals continue as companies shed assets and distressed businesses seek M&A solutions to solvency.

While the challenges are unique to each company, the magnitude triggers many common M&A questions and decisions for leaders. Actions companies take now will impact their current and future viability. In the coming months, M&A will move at different paces by sector and geography depending on how severely each is impacted and based on the certainty of market demand shifts. We all are facing a cycle of near-term actions for stability, coupled with strategic moves that will create new futures for companies and industries.

## Historical M&A market contraction in downturns<sup>6</sup>



**M&A value decline exceeds volume drop due to greater attrition of mega-deals, while many smaller deals continue**

# What are CEOs asking?

## **How do we assess needs to rebalance for risk, liquidity and resilience?**

For many companies, there has been a pressing need to shore up the business for liquidity, to mitigate risk or fill gaps in the value chain. At this stage it is critical to stress test necessary short-term reactions against a long-term view, even if choices are potentially limited. Taking a top-down look at your portfolio through a private equity or activist lens can especially help your team identify potential divestitures and gaps to fill, and to validate the focus of the remaining company. Companies with recently closed deals face extra pressure as they try to realize value with added operating challenges such as productivity needs and workforce disruption.

## **Could this spark a wave of industry consolidation?**

Crises often trigger consolidation in sectors that bear the brunt of the impact, such as the banking and travel sectors during the 2008 Financial Crisis.<sup>7,8</sup> 17% of public companies don't survive a global downturn.<sup>9</sup> Forming a view on who will drive consolidation, who will be consolidated, and how to react is key to making better decisions. Understanding the potential consolidation dynamic for suppliers and customers is as important as the consolidation dynamic for your direct competitors.

## **How should we leverage M&A to invest for growth in the crisis environment?**

In any crisis, there are discrete, strategic opportunities to acquire high-quality talent, intellectual property (IP) and capabilities, often in distressed situations. For those in a position to acquire, these investments can be critical to long-term resilience while also helping distressed companies preserve capabilities and talent versus facing potential insolvency.

**How do we survive or identify what to sell?**

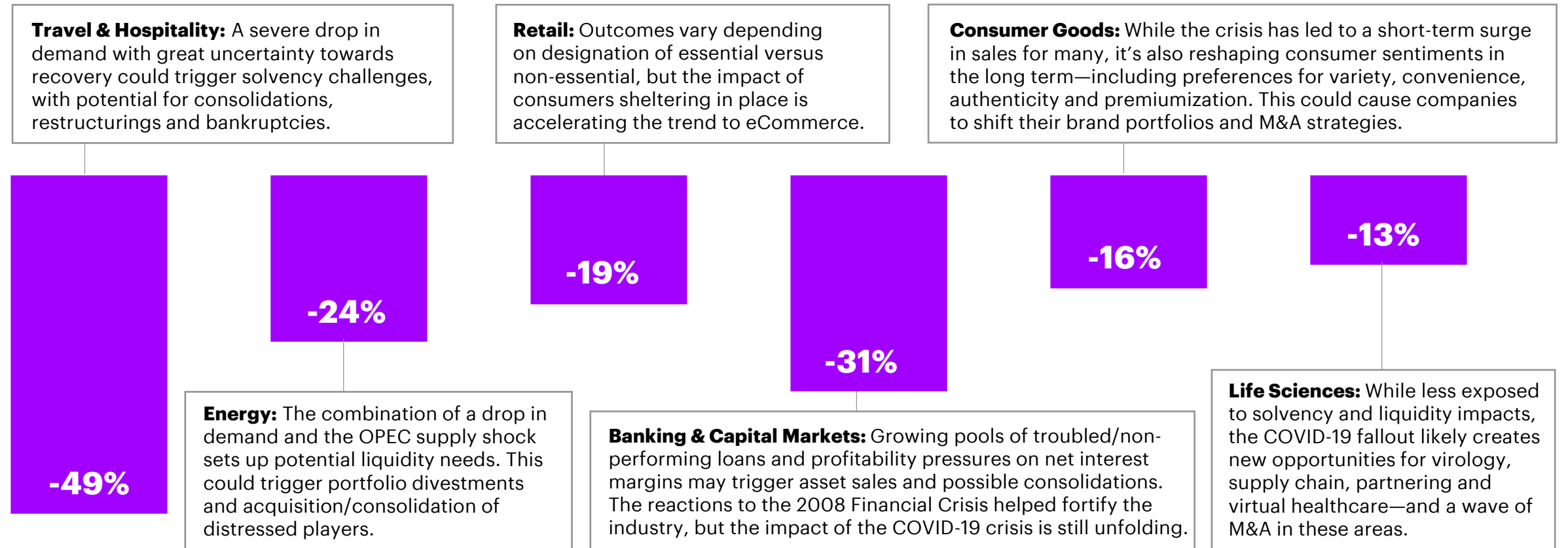
**Should we go forward with in-flight deals?**

**Which strategic M&A opportunities merit investment ?**

**Do we risk deployment of capital now?**

# Unique industry challenges shape M&A responses

## Market capitalization losses in the first 25 days of the COVID-19 crisis.<sup>10</sup>



Now



Next and beyond



# Re-evaluate M&A now and move at speed

**This is no ordinary downturn: Fundamental changes in consumer behavior, supply chains, and routes to market are knocking companies off balance. While some shifts are temporary, other things will never be the same: The new normal will be “never normal.”**

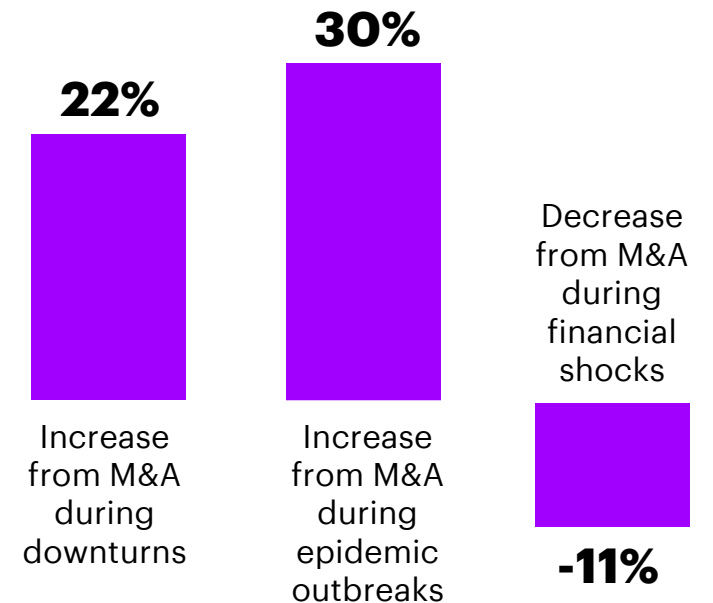
**By repositioning through M&A,** leaders can help outmaneuver uncertainty and drive resilient growth. Analyses of M&A returns coming out of past crises reveals an opportunity: Following crisis-induced downturns, M&A historically has periods of strong performance.<sup>11</sup> Suppressed valuations are a partial driver, but opportunities that may not have been tenable in an up-market also may become possible, or new imperatives for growth emerge. For example, 41% of US online grocery orders were by first-time online buyers in the week of March 9, 2020,<sup>12</sup> and this growth in ecommerce has only continued since.

**The COVID-19 crisis is unprecedented** in the depth and breadth of its global impact. This pandemic is not just triggering a major financial shock, it is changing the way governments, businesses and humans interact. Government interventions are at a scale not seen since the 2008 Financial Crisis. The fallout is just beginning. For example, will there be a rise of protectionist moves against cross-border deals? Even pre-crisis, regulatory bodies such as The Committee on Foreign Investment in the United States (CFIUS) significantly challenged cross-border tech deals.<sup>13</sup> These factors can complicate the ability to act on opportunities.

**Now is the time to thoughtfully put M&A to use.** Leaders are moving through several M&A horizons, balancing immediate actions to the crisis and plays that reposition for the future. Those who leverage M&A well as part of a holistic response to the crisis over the next 12-24 months will be more likely to outmaneuver uncertainty and outperform those who do not in the next three to seven years.

## M&A returns in downturns

Firms who bought in a downturn tend to have a higher three-year total shareholder return (TSR) than their S&P 500 sector average.<sup>11</sup>



**M&A in down periods is an important mechanism for recovery and growth**

# Accelerate your pace, expand your scope

## The Now

**Take immediate stock** of the position the crisis places your company in and what M&A levers to include in your response.

**Make rapid calls** on in-flight deals, divestitures and new alliances required for stability, and revisit as needed throughout the crisis.

**Evaluate opportunistic plays** such as acquisitions of distressed businesses with capabilities you can grow.

## The Next

**Look beyond the immediate horizon** to consider how industry structure is likely to evolve and implications for M&A, ventures and alliances.

**Determine if industry consolidation is likely**, and assess possible transactions and the ability to influence them.

**Reassess the medium-term M&A landscape and act on opportunities early** to come out of the downturn with the right strategic deals done.

## The Never Normal

**Take a broader view of M&A** across the entire ecosystem—and beyond industry boundaries—to build for resilient growth and reduce risk/exposure to future crises.

**Realign partners/alliances** to increase resilience, including re-evaluating what to own internally versus have in the ecosystem.

**Continuously revisit priorities and potential disruptors**, and build analytics/AI capabilities that enhance this capability over time.

**The duration and focus for each stage will vary greatly by industry and company—depending on how severely each is impacted by COVID-19 and the economic downturn that resulted.**

# Position now

**Forward-thinking leaders will take a holistic approach, making necessary short-term moves for stability and resilience while keeping opportunistic growth plays on the radar, where possible.**

**Take immediate stock** of the position the crisis places the company in and what M&A levers are needed. This includes reviewing your internal portfolio and ecosystem partners. Quickly identify critical risk points, including need for liquidity, struggling partners, or gaps in operations. Assess the spectrum of M&A, venture and alliance moves that could help alleviate these immediate challenges—including divestitures, alternative/diversification of alliances, consolidation to maintain solvency, and potential hostile takeover defenses.

**Make rapid prioritization calls** on M&A activation. Decide what should be put on pause, what should be shifted to a different timeline and what should stop. In March 2020, companies canceled four times the number of deals compared to the same month the year before.<sup>14</sup> For new moves such as divestitures, decide if seeking an exclusive arrangement is preferable to an auction. For alliances, define the most critical elements in the ecosystem to address, and identify, potentially new, partners most able to solve these needs.

**Evaluate opportunistic plays** with long-term potential upside. Start with another look at the investment strategy for in-flight and near-term deals. Evaluate opportunities to place bets on assets such as insolvent startup IP, talent acquisitions, and distressed tuck-ins. Since the flow of these opportunities can come fast, having a clear idea of what is on strategy and what is not is essential. If you are in a strong position, relative to your competition, consider tapping lines of credit or borrowing at low rates to increase available capital for investment.

**Leaders are making Now moves for stability and opportunistic growth<sup>15</sup>**

A global energy company is conducting a portfolio review, using a private equity lens to determine what an activist would do.

A bulge-bracket private equity firm is reviewing multiple targets by sector for opportunities to buy distressed debt and drive restructuring.

An alliance of hospitality groups created a worker pool to share with a supermarket chain to support the sudden spike in their delivery business, offsetting a decline in lodging.

A financial services firm is evaluating the opportunity to buy a digital start-up facing liquidity challenges.



# Accelerate out of the downturn **next**

**The crisis will continue to unfold and it uniquely defies forecasting. Building in agility is key to accelerating out of the downturn.**

**Look beyond the immediate horizon.** Assess how industry structure is likely to evolve and what the implications are for M&A, ventures and alliances. Analyze the potential for acceleration of consolidation, convergence or other major industry shifts. Use this to frame the next wave of M&A responses to rebalance and reposition.

**Determine if industry consolidation is likely,** and assess possible transactions and the ability to influence them—including leading, selling or defending. For example, players in multiple industries are re-evaluating vertical integration out of necessity to shore up weakened, but critical, suppliers. Consolidation, vertical integration and similar plays are not right for every company but understanding what might transpire and how to react is essential.

**Reshape medium-term M&A agenda** and take early action. Begin the necessary pipeline and diligence efforts in readiness for any consolidative activity. Continue to leverage M&A for resilience and growth, including divestitures and placing additional strategic bets in growth markets and sectors beyond distressed plays. The window of opportunity for these moves can close quickly, and the best returns in M&A often come from deals identified in a downturn.<sup>16</sup>

**Leaders in a position to do so are making Next moves<sup>17</sup>**

A renewables energy firm is exploring vertical integration with distressed suppliers to secure this base.

A global financial services company announced a strategic merger just as the outbreak started and plans to complete it to position for the future.

A global consumer products company remains focused on completing planned divestitures and preparing for growth acquisitions that were strategically correct before the outbreak and remain so.

# In the **never normal**, readiness determines resilience

**The COVID-19 pandemic exposed critical weaknesses in almost every business. Every crisis creates opportunities to be better prepared for the future.**

**Take a broader view of M&A** across the entire ecosystem to recalibrate for resilient growth. Consider how the COVID-19 crisis aftermath will cause industry structures to evolve. Then build the required resilience. Specifically, M&A, ventures and alliances can be used to reshape what is done internally versus externally, to build a more flexible network of partners, to balance concentration risks, and to access new capabilities that will help propel growth coming out of the downturn.

**Include alliances in your expanded view** to realign the company. Re-evaluate alliances and ecosystem partners to increase resilience. For example, prior to the pandemic cross-industry alliances and mergers were forming to transform the US healthcare model. Similarly, alliances in the airline industry have been essential to establishing global networks. Coming out of the crisis, the roles of such networks will evolve in many industries to solve weaknesses exposed by the pandemic.

**Continuously revisit priorities** and potential disruptors to reframe the M&A agenda. Each business cycle brings new and unexpected challenges. Lessons learned from the COVID-19 crisis will help companies position themselves better to leverage M&A for growth and resilience. Build a capability powered by analytics and AI to scan for potential risks and disruptors, conduct scenario planning and identify potential candidates for M&A, ventures and alliances to proactively address any weaknesses.

## Leaders should prepare for the Never Normal

What shape will ventures and alliances in your industry take?

Does the COVID-19 pandemic reveal any important needs to partner with a broader network?

Are there non-traditional partners that become central to how you will operate with resilience going forward?

How will these new ventures and refined approaches to M&A help ensure your resilient growth?

# Infuse M&A with analytics for **readiness and agility**

**The COVID-19 crisis demonstrates that agility is more essential than ever. Analytics capabilities help enable companies to scan proactively for disruptors and opportunities, make real-time decisions, balance short- and long-term actions, and achieve greater speed to value from M&A in an ongoing, uncertain environment.**

## **Deal strategy and diligence**

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Data-driven and AI enhanced search and screening

Analytic industry stress tests to model future evolution (e.g., consolidated vs. consolidators)

Cyber and technology diligence for resilience and capability validation

## **Pre close**

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Analytics platform to accelerate one-company operations, prior to systems and process integration

Organization and culture analytics to enable better talent and operating outcomes

Clean-room analytics and AI for synergy planning and realization

## **Post close**

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Cloud-based accelerators for systems integration and transformation (e.g., AWS, scaled environments for SAP and other ERP consolidation)

Carve-out factory for divestitures

Extended use of ecosystem partners to redefine work through AI and automation

# Rapid response timeline

NOW  NEXT

┆ *Most companies are here.* ┆

## First 72 hours

### Get organized

**Prioritize any burning issues or flare-ups** and any required M&A actions.

**Define parameters for managing in-flight M&A** (e.g., what to stop, what to re-sequence, what to revalue) and revisit as crisis continues to evolve.

## First week

### Take stock

Depending on impacts and company position, **establish envelope of immediate M&A focus**—ranging from solvency to positioning for future.

**Stand-up focused deal/review teams** as required to support “Now” activities including portfolio reviews, scans for distressed assets with upside potential, and potential defensive strategies against hostile takeovers.

## Next 2 weeks

### Take action

Define near-term M&A agenda in response to the crisis and **convert new funnel of priorities into deal management pipeline.**

**Prepare for iteration** between M&A for immediate stability, for opportunistic growth and for industry reorganization as the COVID-19 crisis plays out.

## Next month

### Look beyond

**Incorporate scenario planning into M&A agenda** to reflect rapidly evolving business environment, and build views of the conditions under which specific deals would be considered (e.g., valuation, competitor action, longevity of shut-down).

## Going forward

### Build new M&A capabilities

Move to looking beyond “Now and Next” priorities as soon as possible to **consider additional reshaping of industry and ecosystem plays.**

**Build the broader agenda of growth and resilience** into the formal M&A funnel and the range of plays M&A considers.

**Revamp M&A process and capabilities based on lessons learned** from the crisis and reshape plans for how it will be leveraged.

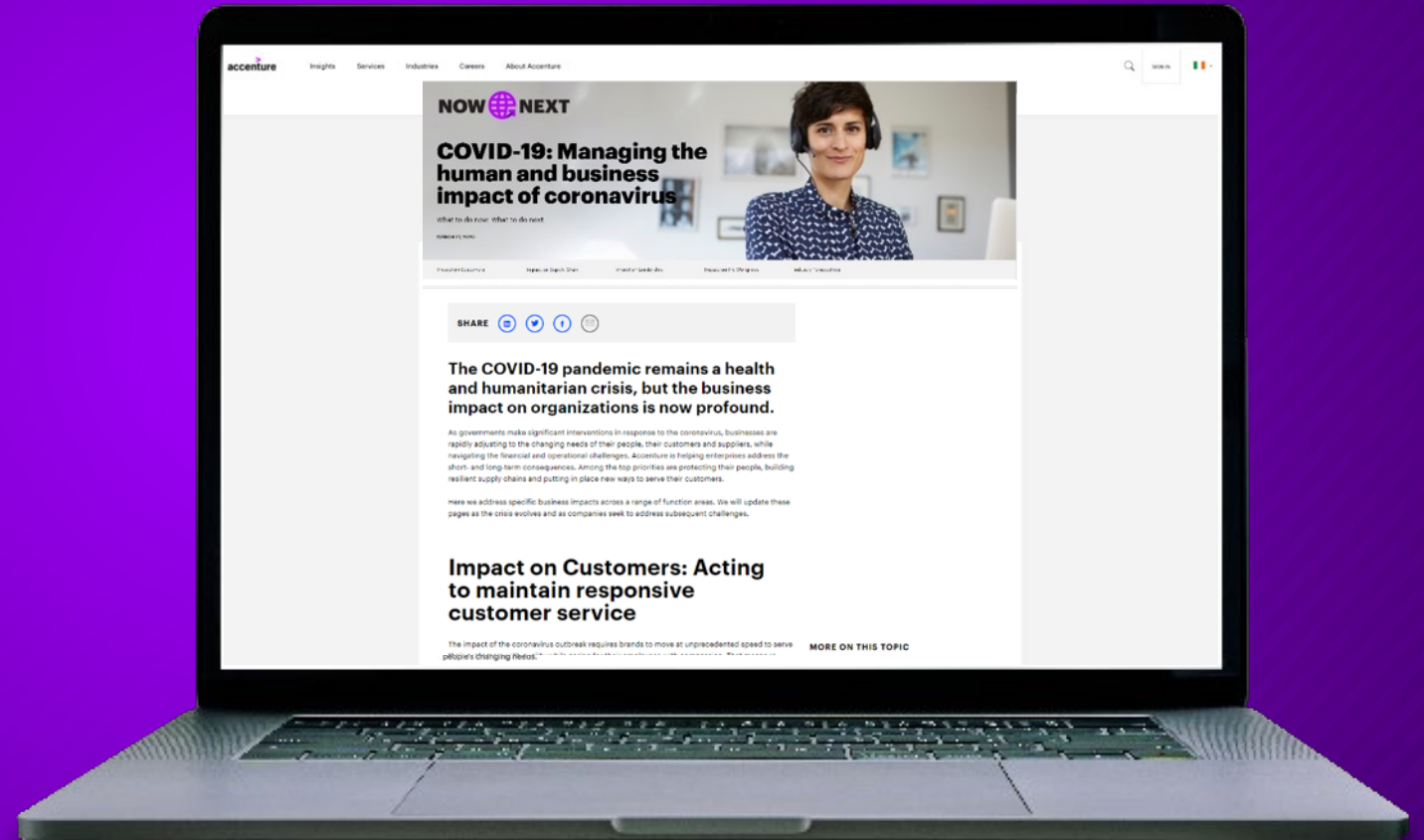


To help our clients navigate both the human and business impact of COVID-19, we've created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions that can be taken **now**, what to consider **next** and how to outmaneuver uncertainty and emerge stronger in the **never normal**.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

[VISIT OUR HUB HERE](#)





# Contact us

NOW  NEXT



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