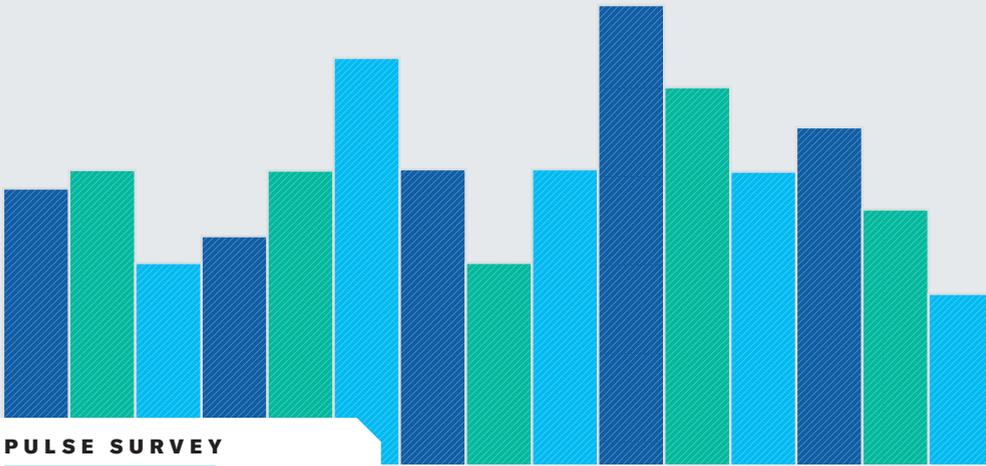




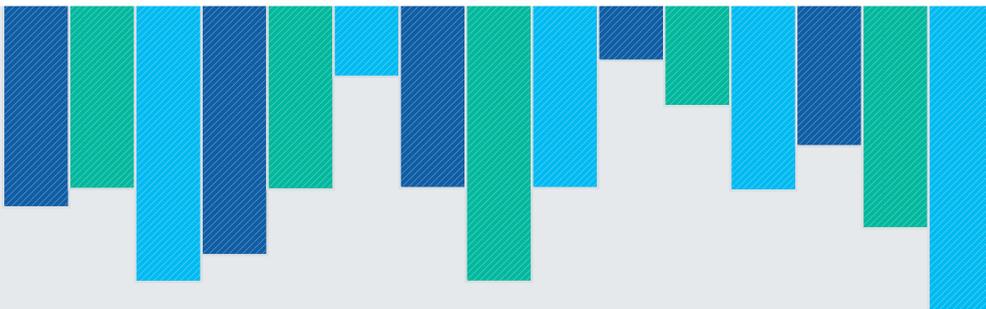
**Harvard
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ANALYTIC SERVICES



PULSE SURVEY

A New Vision for How Organizations Can Use M&A to Adapt to a Post-Pandemic Economy



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In March 2020, the world seemingly hit the pause button. As the global pandemic became a reality, everything else seemed uncertain and the outlook for global mergers and acquisitions (M&A) was an enigma.

However, after a short period of readjustment, Covid-19 surprisingly drove increased M&A activities as companies sought to acquire growth and new capabilities. Technology changes that were already underway were accelerated, and M&A became an efficient way to build scale and realign strategies to be better equipped to succeed.

Covid-19 not only impacted M&A by increasing the volume of deals to unprecedented levels, but it changed how and why deals are getting done as well. To understand these fast-changing dynamics, Oaklins sponsored this research by Harvard Business Review Analytic Services that analyzes the future of global M&A. It will inform readers how to leverage that M&A demand as a buyer or seller.

The survey of nearly 500 executives found that companies are using M&A to become more equipped to sustain future crises and to adapt their businesses to the post-pandemic economy. In some cases that means buying companies in order to grow market share; stay ahead of the competition; gain access to new technologies; and increase sales, earnings, or other financial metrics. The pandemic has also caused many companies to look outside their industry for M&A opportunities.

The pandemic exposed striking differences in companies' abilities to withstand crises. Those with scale were far better positioned. Scale became a factor in everything from deploying new technology to addressing labor shortages and supply chain issues.

As buyers pursued increased scale through M&A, many midmarket companies saw this as an opportunity to sell at record-level valuations.

The survey also reviews different buyer categories. Private equity buyers have become more willing to focus on growth and pay higher multiples for it, while strategic buyers appear more proactive in their M&A approach and aggressive in their valuations. And there are new financing models to consider, such as special purpose acquisition companies (SPACs), which are particularly popular in Asia.

We hope this research helps you determine the role M&A could play in your future strategy and how you can best benefit from current and future M&A trends. Instead of stopping or slowing down deal activity, the pandemic has increased it, enabling companies to create significant strategic advantages and wealth creation and altering how organizations will approach M&A for many years to come.

Being well informed and at the top of your game is crucial in times of rapid change. Read on for invaluable advice and guidance from this survey of 487 executives to learn how companies are taking advantage of M&A opportunities to grow their organizations and become better equipped to sustain future crises and maximize success.

A New Vision for How Organizations Can Use M&A to Adapt to a Post-Pandemic Economy

Deal makers at the outset of the Covid-19 pandemic worried a prolonged liquidity crunch would have a chilling effect on mergers and acquisitions (M&A). But the global equity markets recovered quickly, and government programs and low interest rates propped up the loan and bond markets, enabling companies to bolster their balance sheets. And while Covid-19 had an effect on the M&A market, it wasn't the negative one anticipated. The pandemic forced many companies to retool and reassess their businesses, and M&A became a quick way to act on both.

“The Covid-19 pandemic was an anomaly in many ways, allowing companies a previously unthinkable peek into the future. Many companies did not like what was hidden behind the curtain,” says Eric Deram, managing partner in the Geneva office of Paris-based private equity (PE) firm Flexstone Partners. “The world at that time was evolving so dramatically, and many companies lacked the infrastructure and business plans to face these new, uncertain futures.”

He explains that M&A has often been used as a way for companies to quickly retool, whether they're adding new capabilities, adopting novel ways of doing business, or shedding unwanted assets. The changes evoked by the pandemic are providing such a setting, and several industries are benefiting from the widespread uptake of new technologies and are using the momentum to recapitalize and grow, he adds.

Indeed, in many parts of Europe, North America, and Asia, deal making is happening at a record pace. Globally, more than 20,000 deals closed in the first three quarters of 2021, with a combined value exceeding \$2.97 trillion, up from \$2.2 trillion for the same period of 2020, according to PitchBook, an M&A research firm.¹ PitchBook attributed the deal-making frenzy not only to

HIGHLIGHTS



72% of respondents expect **deal making in their industry to increase relative to pre-pandemic levels**, a sentiment shared uniformly in North America (73%), Europe (73%), and Asia Pacific (71%).



70% report either having seen or expecting to see **consolidation in their industry due to changing economic conditions** caused by the pandemic.



54% say **increasing market share is one of their most important strategy priorities** with respect to mergers and acquisitions, followed by securing new technologies or expertise (48%).

Due to rounding, some figures in this report may not add up to 100%.



“The Covid-19 pandemic was an anomaly in many ways, allowing companies a previously unthinkable peek into the future. Many companies did not like what was hidden behind the curtain,” says Eric Deram, managing partner at Flexstone Partners.

a world awash in liquidity but also to renewed confidence by executives worldwide.²

That optimism is only likely to continue. Of the 487 executives in midmarket organizations familiar with their company’s M&A strategy that Harvard Business Review Analytic Services recently surveyed globally, 72% say they expect deal making in their industry to increase relative to pre-pandemic levels. Executives in North America (73%), Europe (73%), and Asia Pacific (71%) reflected this sentiment.

In addition to accelerating digital transformation, the pandemic underscored the advantages of size, scale, and geographic reach. Larger companies could more easily set aside cash, access lending, and deploy technology in the early days of Covid-19. They’ve also been able to more readily react to new regulations, recruit employees amid labor shortages, and cope with supply chain and manufacturing disruptions.

But these are pressing issues for middle-market executives, too. Eighty-six percent of respondents agree that the pandemic has led companies to reassess their supply chain and product distribution needs, as well as the alliances that may aid both. This finding is especially true among Asia Pacific respondents (93%) when compared to their counterparts in North America (83%) and Europe (82%).

Organizations are now examining their digital capabilities as well as their businesses, whether it’s units that performed poorly during the pandemic—or did well. This examination is also extending to new financing models, such as special purpose acquisition companies (SPACs), which allowed hundreds of companies to access public equity markets. These efforts have formed a basis for deal making not only during Covid-19 but also in a post-pandemic world. “We’re getting very frequent inquiries about SPACs,” says Daniel Yeh, a partner in White & Case’s Hong Kong office, whose practice primarily serves financial sponsors. “SPACs as a potential

platform for fundraising and path to liquidity have become widely accepted in Asia.”

This report focuses on how companies globally are using M&A to accelerate the adoption of new digital technologies; to grow their organizations so they become bigger, better-financed companies more equipped to sustain future crises; and to reposition their business plans and models to adapt business operations to the post-pandemic economy. It also considers the factors that facilitate or hinder the M&A efforts attached to these strategic goals.

Making Up for Lost Time

“In February and March of 2020, uncertainty was high. Anyone contemplating an M&A trade put a huge discount on knowing the future,” explains Chris Gordon, a managing director at Bain Capital’s headquarters in Boston. “Other than some truly deep distress scenarios, not a lot happened. But to the surprise of some, and maybe not to others, the financial world didn’t come to an end, and people found a way to be productive in remote settings. After several months, it seems like uncertainty bands weren’t quite as wide and there was a lot of pent-up activity.”

Middle-market management concerns at the outset of the pandemic also eased as they adjusted to new realities. At the end of the fourth quarter of 2020, a study of 1,000 middle-market executives in the U.S. by The Ohio State University Fisher College of Business’s National Center for the Middle Market (NCMM) found that nearly 40% of respondents thought the pandemic would be catastrophic for their businesses over the next six months, notes Doug Farren, managing director at the NCMM. Yet during the second quarter of 2021, the center found that 91% of middle-market executives had confidence in their local markets, 89% had confidence in the U.S. market, and 81% had confidence in the global market. U.S. middle-market companies were also less likely to hold cash on their balance sheet than they were six months earlier, opting instead to invest the money in retooling their business, specifically new plant or equipment upgrades, human resource initiatives, information technology projects, and, to a lesser extent, acquisitions, he explains.

A similar middle-market story is evident in Asia, according to White & Case’s Yeh. “Since the Chinese New Year, private equity investors have been incredibly busy, looking for new opportunities and executing on deals. There is a sense of needing to make up for lost time,” he says. “From the perspective of PE funds, limited partners’ capital commitments are there and time is ticking, pandemic or not. The posture toward investment remains strong.”

The pandemic was, in many ways, an accelerant for technological changes many executives already had underway or had contemplated. Companies began communicating more with customers and suppliers electronically while employees

often began working remotely. As businesses increasingly moved online, many companies adopted operating methods that had been long championed to improve efficiency but had not always been implemented.

“Overnight, many companies told employees to work from home, but new ways of working were only possible by the adoption of new technologies,” says Flexstone’s Deram.

Respondents to the Harvard Business Review Analytic Services survey underscored these needs for resiliency, realignment, and continued digital transformation when reflecting on M&A in their own industries, citing the biggest drivers today for deal making among buyers in their sector to be increasing sales, earnings, or other financial metrics (62%); growing market share (59%); gaining access to new technologies or technological capabilities (58%); and staying ahead of the competition (57%). **FIGURE 1**

Interestingly, the results suggest some shifting in top-line drivers among buyers going forward. When asked about deal drivers two years from now, more respondents (43%) expected that deals for nonfinancial reasons, such as expanding a

company’s ability to provide better customer experience, would increase, versus M&A for those reasons now (32%). Meanwhile, 62% feel deals motivated by a need to increase sales, earnings, or other financial metrics would drive M&A today, versus 53% who think they will in two years.

More Resiliency Through Deal Making

Bigger, better-financed companies were more equipped to sustain the pandemic and, many now believe, to withstand any future crisis, says Deram, adding that many companies are now focused on building up their market share. They believe increasing market share will add to their resiliency because larger companies accessed capital more easily in the early months of the pandemic, often because they had more established relationships with lenders and their business was considered more critical to the overall economy. Larger companies were also able to rapidly deploy new technologies because they had already made complementary investments in their operations. More recently, larger companies were also able to recruit employees amid labor shortages. In fact, Deram adds, the focus on increasing scale marks a change from past crises, when investors and executives thought smaller companies were more agile and responsive in times of trouble.

The labor shortage issue is especially important when it comes to the scale argument. NCMM found that approximately a quarter of all middle-market companies surveyed across all industries believe they had an insufficient workforce to meet current market conditions. The percentage grew in certain sectors like health care, where 39% of responding companies reported labor shortages.

Scale is also more important now when it comes to supply chain resiliency. Larger companies can more easily overcome supply chain problems and are often able to find backup suppliers, alter shipping routes to avoid bottlenecks, and even limit the amount retailers can buy at once.³ Larger companies that command more market share can also raise prices more easily.

Executives are now acutely aware of the importance of scale and gaining market share and are considering using M&A as a means to achieve this objective. Fifty-four percent of Harvard Business Review Analytic Services respondents say that coming out of the pandemic, one of the most important strategic priorities for their company with respect to M&A was increasing market share. It was cited as a top priority by a significantly greater proportion of respondents in North America (65%) than in Europe (44%) or Asia Pacific (46%).

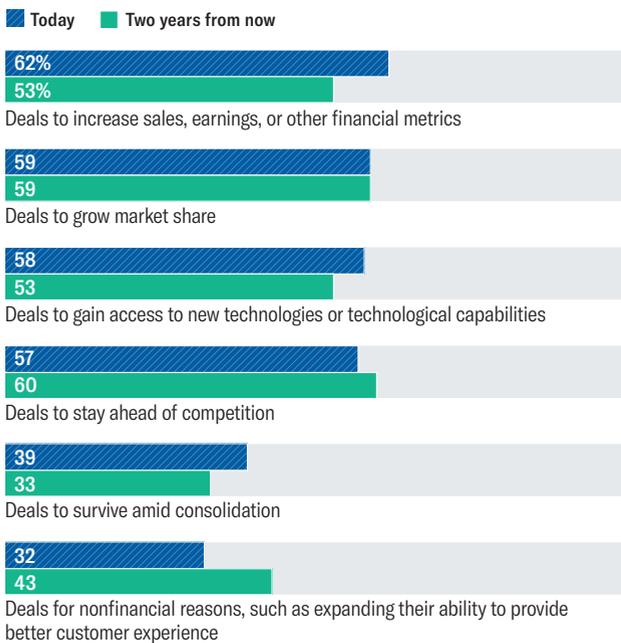
Meanwhile, 70% of respondents overall—there wasn’t much difference between the three regions—either have seen or expect to see consolidation in their industry due to changing economic conditions caused by the pandemic. Not surprisingly, since larger strategic players tend to initiate

FIGURE 1

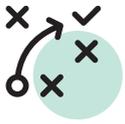
Resiliency and Realignment

More than half of respondents say buyers are motivated by consolidation and growth

What are the driving forces among buyers in your industry today?
What will be the driving forces two years from now? [SELECT ALL THAT APPLY IN EACH COLUMN]



Source: Harvard Business Review Analytic Services survey, August 2021



Forty-eight percent of respondents say securing new technologies or expertise is an important strategic priority coming out of the pandemic.

consolidation efforts in sectors, 69% of respondents who have been approached about a sale say such buyers from the same industry had made overtures to their organizations, while 17% say a strategic buyer from another industry had done so. Worth noting is that among respondents approached about a sale, nearly half (49%) say the overture was made by a financial buyer, like a PE firm.

“There is no doubt that larger enterprises with more sophisticated supply chains and more redundancy in their manufacturing footprint were better able to navigate troubled waters,” says Bain’s Gordon. “The other area where scale demonstrated real advantages during the pandemic was the ability to invest in and deploy technology.”

The Effects of Accelerated Digital Transformation

Over the past decade, many industries have begun digital transformations that involve rethinking how to conduct business. The pandemic hastened this effort, often forcing companies to adopt more digital technology and analytics to conduct daily operations. This massive acceleration has led some companies to acquire new capabilities and next-generation technologies, and that movement may not be over. Forty-eight percent of respondents say securing new technologies or expertise is an important strategic priority coming out of the pandemic. Moreover, 47% of respondents believe a need to acquire new technologies to operate in a post-Covid-19 world would be a top M&A driver in their industry over the next two years.

This need may be particularly acute in the middle market. Digital technologies could help many midmarket companies overcome hurdles exacerbated by the pandemic, says NCMM’s Farren. Since the impact of Covid-19, he says, many midmarket executives say communicating with employees is difficult, but the NCMM found only one-third of midsized companies use digital communications internally. Engaging with customers is another hurdle, but only 31% of companies have implemented technology to do so, Farren says, adding that only 35% of middle-market companies considered themselves advanced or ahead of their peers, even though most executives thought digitization was important for conducting business in today’s environment.

For those looking to address technological gaps through mergers or acquisitions, Farren suggests executives focus

on the “human side of the transaction,” especially employee and customer engagement. Too often, he adds, companies concentrate on operational nuts and bolts, like upgrading accounting systems and merging duplicative assets.

The need for acquiring more technology is driving M&A in some sectors because of systemic changes in how organizations now operate within them. Consider the alternative and renewable energy industry, where 63 deals worth \$16.9 billion were done in the first half of 2021, reflecting an increase of 169% from the same period in 2020.⁴

More deal flow in this sector reflects investors’ interest in sustainable projects but is also an acknowledgment that a transition to clean energy will require the grid to be updated and modernized. Companies that make batteries designed to back up wind turbines and solar power panels have seen a bump in deal making. PE investors bought some of these companies, while others have gone public via SPACs. Technology, health care, life sciences, and alternative energy companies are seeing higher valuations and often more deal flow, says Yeh, adding that it has been “a golden opportunity for companies in these sectors to book rich valuations.”

Realignment for a Post-Pandemic World

As more companies globally have taken stock of whether they have evolved technologically enough to operate in a post-pandemic economy, they remain uncertain about whether their supply chains, assets, and finances are properly aligned for them to remain competitive. Across all regions, such uncertainty and market disruptions are significant obstacles for many companies when it comes to M&A.

For example, when asked what factors would deter their company from entering a sales process for all or part of the enterprise, the three most popular answers were losing control of the company (37%), uncertain market conditions (34%), and difficulty valuing 2020/2021 earnings (29%). Additionally, when asked what the biggest challenges/risks are in executing an M&A transaction coming out of the pandemic, respondents’ two most frequent answers were anticipating market conditions or trends in the post-Covid-19 world (41%) and management integration (40%).

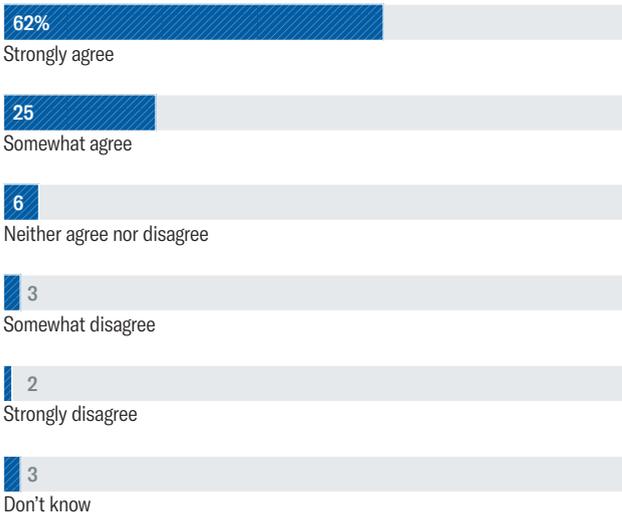
Many companies are also grappling with the aftermath of supply chain disruptions. In fact, 86% of respondents somewhat or strongly agree that the pandemic has led companies to reassess their supply chain and product

FIGURE 2

Tangled Supply Chains

There's broad consensus that companies are rethinking their supply chains

The pandemic has led companies to reassess their supply chain and product distribution needs and alliances that may aid them. [RATE THE EXTENT YOU AGREE OR DISAGREE WITH THAT STATEMENT]



Note: Numbers are rounded to the nearest percent.
Source: Harvard Business Review Analytic Services survey, August 2021

distribution needs and the alliances that may aid both of them. **FIGURE 2** Adding to the difficulties that companies face that are associated with supply chain delays and shortages are regulatory oversight issues.

“When everyone was struggling to find face masks, companies and regulators started to question optimized supply chains and realized it was not always a good idea to have suppliers halfway around the world. The result is that a lot of cross-border deals are really scrutinized,” says Deram.

While many companies used debt, equity, or even government loans to shore up their balance sheets and tighten up their business plans, others during the pandemic shed operations or units no longer considered core assets.

As a result, many executives believe business realignment is a key M&A trend today. Survey respondents say that coming out of the pandemic, the two most important strategic priorities for their own companies with respect to corporate sales include realigning the business to focus on units that performed well during the pandemic (54%) and eliminating business units that are no longer relevant or performed poorly during the pandemic and are unlikely to recover (44%). Responses from different regions vary on how respondents weigh key factors driving sellers in their

industry. For example, 55% of respondents in Asia Pacific indicate that refocusing the portfolio and exiting noncore businesses are important drivers today, whereas only 42% of North American respondents feel the same way.

Organizations are also becoming more expansive in their approach to realigning their businesses. Witness the fact that three in five respondents (59%) somewhat agree or strongly agree that the pandemic has caused companies to look outside their industry for M&A opportunities. The survey’s overarching themes, including a need to adjust and acquire new technology, may be instructive here. Indeed, half the respondents (50%) expect the need to pivot into new lines of business in order to operate post-pandemic will be a key driver of M&A in their industry over the next two years. Similarly, 47% expect the need to acquire new technologies to operate in a post-Covid-19 world will be a key M&A driver.

FIGURE 3 More so than elsewhere, respondents from the Asia

FIGURE 3

Realignment Reigns

Respondents say organization realignment is a top M&A driver

Over the next two years, what do you believe will be the top drivers of mergers and acquisitions in your industry? [SELECT UP TO 3]



Source: Harvard Business Review Analytic Services survey, August 2021



Half the respondents (50%) expect the need to pivot into new lines of business in order to operate post-pandemic will be a key driver of M&A in their industry over the next two years.

Pacific region identified the need to pivot (58%) and acquire new technology (56%) to be among the top M&A drivers in their industry.

An Evolving M&A Playbook

As the impact from Covid-19 recedes, investors are increasingly looking to put money that's been on the sidelines to work when it comes to deal making, but they are often using a new playbook for funding M&A. One big change is that private equity firms are spending more time investing in companies that are projected to grow significantly in the coming years instead of what they've traditionally done, such as revitalizing and then flipping mature corporations.

"Growth investing has always been a component of what private equity buyers did, but private equity's bread and butter was relatively more mature and stable businesses," says Gordon. Firms are increasingly paying high multiples for businesses growing 20% or 30% a year, he says, citing Bain Capital's \$1.25 billion acquisition in July 2021 of PartsSource Inc., a rapidly growing online marketplace where hospitals can find and efficiently order replacement parts for medical equipment.

Another big change is the growth of SPACs when it comes to deal making.

Investors have taken a record number of companies public through them. In the U.S., for instance, 444 SPACs listed on public stock exchanges in the first six months of 2021, versus 245 for all of 2020 and 59 for all of 2019.⁵

Survey respondents are lukewarm on SPACs, however. For one thing, they haven't had much exposure to them. Among respondents whose companies have been approached about a sale since the pandemic began, only 11% report being approached by an SPAC. **FIGURE 4** For another, 44% of all respondents strongly agree or somewhat agree that the SPAC model has opened more opportunities to sell where more conventional methods did not (42%); offered organizations in their industry a more efficient way to go public (40%); gave the ability to sell at a higher valuation than they otherwise might have (40%); and provided the chance to cash out their financial sponsors (39%). In fact, when asked if their company considered selling to an SPAC since the pandemic began, almost two-thirds of respondents said no (65%).

Respondents in the Asia Pacific region see more benefits to SPACs than do respondents in other regions. For example, 57% of respondents in Asia Pacific agree that the SPAC model has offered organizations in their industry an opportunity to sell that more conventional deal-making methods did not, compared to just 28% and 34% among European and North American respondents, respectively.

Moreover, in a post-pandemic world, SPACs aren't likely to be a short-lived presence on the M&A landscape, even as they've come under some fire. In the July-August 2021 issue of *Harvard Business Review*, Max Bazerman, the Jesse Isidor Straus Professor of Business Administration at Harvard Business School, and Paresh Patel, cofounder and CEO of Natural Order Acquisition Corp., write that they believe SPACs are here to stay. The reason, they say, is "because they offer investors and targets a new set of financing opportunities that compete with later-stage venture capital, private equity, direct listings, and the traditional IPO process. They provide

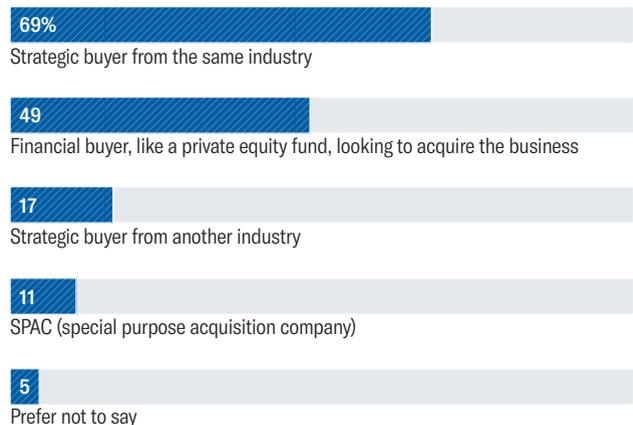
FIGURE 4

Shopping for Businesses

Strategic buyers are the most frequent suitors

What type of buyer(s) has approached your company about a sale?
[SELECT ALL THAT APPLY]

Asked only among respondents who say their company had been approached about a sale since the pandemic began.



Source: Harvard Business Review Analytic Services survey, August 2021



Thirty-four percent of respondents say uncertain market conditions would deter their company from entering a sales process for all or part of the enterprise.

an infusion of capital to a broader universe of startups and other companies, fueling innovation and growth.”⁶

While respondent sentiment hasn’t caught up with this vision of SPACs, there is optimism that cross-border deal making will return with aplomb. Fifty-five percent of respondents strongly agree or somewhat agree that, post-pandemic, there is an increased focus on cross-border deal making. When it came to their own companies, though, 49% of respondents say their company would consider cross-border deal making globally. Only 24% of respondents say their company would only consider domestic deal making.

North American respondents aren’t as ebullient as their European or Asia Pacific counterparts on the cross-border front. For instance, 41% of North American respondents strongly agree or somewhat agree that, post-pandemic, there is an increased focus on cross-border deal making, compared to 65% of Asia Pacific respondents. Meanwhile, 34% of respondents from North America say their companies would consider domestic deal making only, compared to 15% of European respondents.

Certainly, one reason for reticence about cross-border deal making could be the doubts involving a foreign market that management isn’t familiar with. Consider the fact that global regulators are focusing more on antitrust issues, especially when it comes to technology companies. They are also defining a wider range of businesses as essential for national security purposes, going beyond traditional industries such as defense contracting and into sectors such as pharmaceutical supplies. Perhaps more important, there are still market vagaries

when it comes to labor shortages, supply chain disruptions, and inflation.

Ongoing consolidation and industry concentration are driving regulators across the globe to focus more on antitrust cases. For example, one antitrust issue getting more scrutiny is vertical integration. Respondents don’t appear worried—yet. When asked what regulatory issues affect deal making in their industry the most, only about 15% chose antitrust issues.

But such market uncertainties seem to haunt respondents deeply. Thirty-four percent of respondents say uncertain market conditions would deter their company from entering a sales process for all or part of the enterprise—second only to losing control of the company (37%). This reaction may not be so surprising considering the International Monetary Fund’s “World Economic Outlook” in October 2021, which cites supply distributions and price pressures as key concerns as the global recovery’s momentum has weakened.

Conclusion

The pandemic didn’t stop deal making, but it has altered how organizations will approach M&A in the years to come. Besides realizing how important digital transformation is strategically, organizations during Covid-19 also recognized the need to become more resilient and the imperative to sharpen their focus and realign their business mix. These strategic realities will inform executives’ M&A choices in the years ahead.

Challenges remain. Supply chain woes, pricing pressures, labor shortages in key countries and industries, and increased regulatory scrutiny globally are big concerns in any M&A scenario. But positive deal drivers have also emerged—additional financing resources are available and organizations are willing to consider new strategic paths, such as acquiring outside their industries. As a result, deal making will likely be creative in a post-pandemic world.

“The pandemic drove some real shifts in business models,” says Gordon. “Most of that was an acceleration of trends already happening, but that sort of dynamism in the business world does tend to create opportunity. These opportunities could accrue to private equity buyers backing a team to capitalize on a changing dynamic or corporations adding or exiting sectors or business models.”

Endnotes

- 1 PitchBook, “Global M&A Report: Q3 2021,” October 2021.
- 2 PitchBook, “Global M&A Report: Q2 2021,” July 2021.
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- 4 White & Case, “U.S. SPAC Data Hub,” Third Quarter, 2021.
- 5 Ibid.
- 6 Max H. Bazerman and Paresh Patel, “SPACs: What You Need to Know. A Guide for the Curious and the Perplexed,” *Harvard Business Review*, July-August 2021. <https://hbr.org/2021/07/spacs-what-you-need-to-know>.

METHODOLOGY AND PARTICIPANT PROFILE

A total of 487 respondents drawn from the HBR audience of readers (magazine/ newsletter readers, customers, HBR.org users) completed the survey.

Size of Organization	Seniority	Industry	Job Function	Regions
4% 10,000 or more employees	50% Executive management/ board members	18% Technology	21% General/executive management	34% North America
6% 5,000–9,999 employees	31% Senior management	16% Manufacturing	11% Sales/business development	27% Asia Pacific
31% 1,000–4,999 employees	13% Middle management	11% Financial services	9% Operations/product management	23% Europe
18% 500–999 employees	5% Other	10% Consulting services	8% HR/training	8% Middle East/Africa
38% 50–499 employees		All other sectors, less than 8% each	All other functions, less than 8% each	8% South/Central America
3% Fewer than 50 employees				

Figures may not add up to 100% due to rounding.



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