

Inevitability of more M&A

- from the Corona fallout



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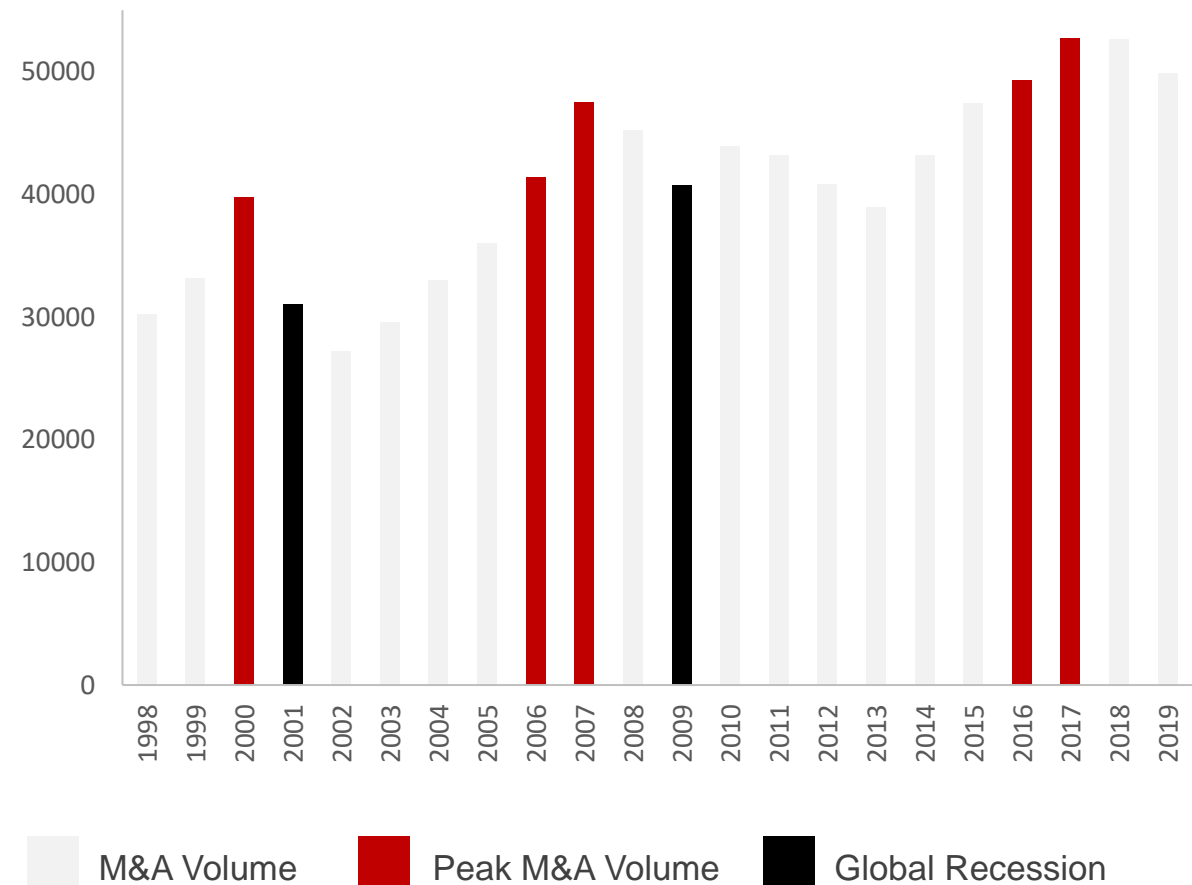
While a global recession presents many uncertainties, one thing has remained certain: Mergers and Acquisitions (M&A)

- The Global economy has come to a screeching halt with the novel COVID-19 virus creating a pandemonium across countries scrambling to impose lockdowns and social distancing measures in a bid to save lives.
- Dubbed the 'Great Lockdown' by the IMF, this virus resulting crisis has erupted a decline in consumer spending, manufacturing and trading activities that has led to an erosion of business profits and a large surge in unemployment; the ingredients that make up a global recession.
- However, M&A has always resurged following global recessionary scenarios – a precedence set by the global recessions of 2001 and 2009 experienced in the New Millennium.
- This report will analyze the above effect with reference to global recessions of the past where for the purpose of this study, recovery period is defined as the no. of years the market takes to surpass its pre-recession M&A volume peak.

Global M&A underwent a 4-6 years recovery period following a global economic recession

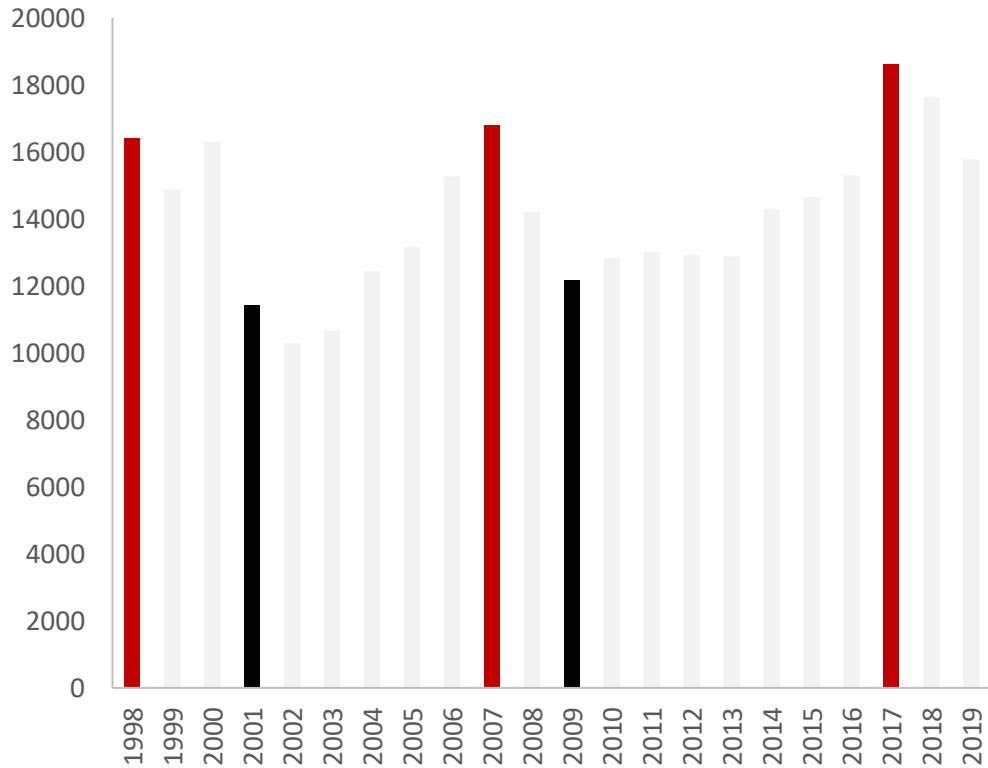
- Global M&A was plagued by the 2001 recession which resulted in a 21.9% drop in the volume of transactions to 31,047 deals.
- After a recovery period of 4 years, M&A activity reached a peak of 41,407 transactions in 2006 which was surpassed once again in 2007.
- However, the 2008 financial crisis resulted in a 4.8% YoY decline in M&A deals despite the many government sponsored mergers in the Banking and Finance sector.
- In comparison to the 2001 recession, the 2009 recession underwent a longer recovery period of 6 years in the M&A market until it reached a new volume peak in 2015.

M&A Activity Levels (1998 to 2019) - Global

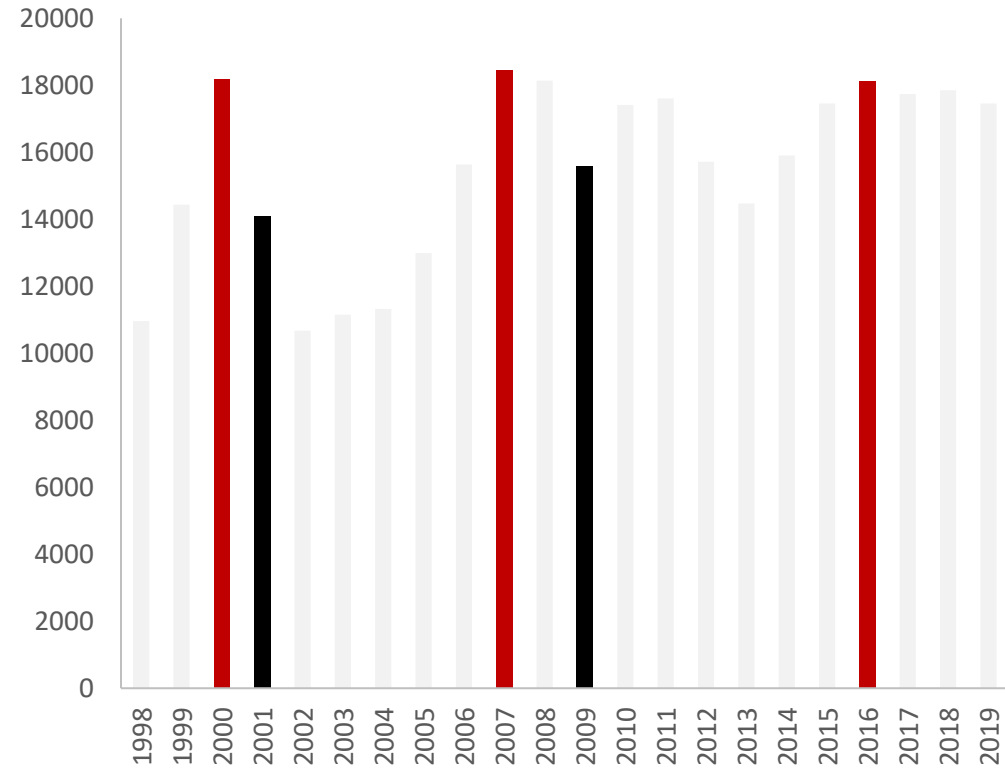


Similar trends could be observed regionally....

M&A Activity Levels (1998 to 2019) - North America



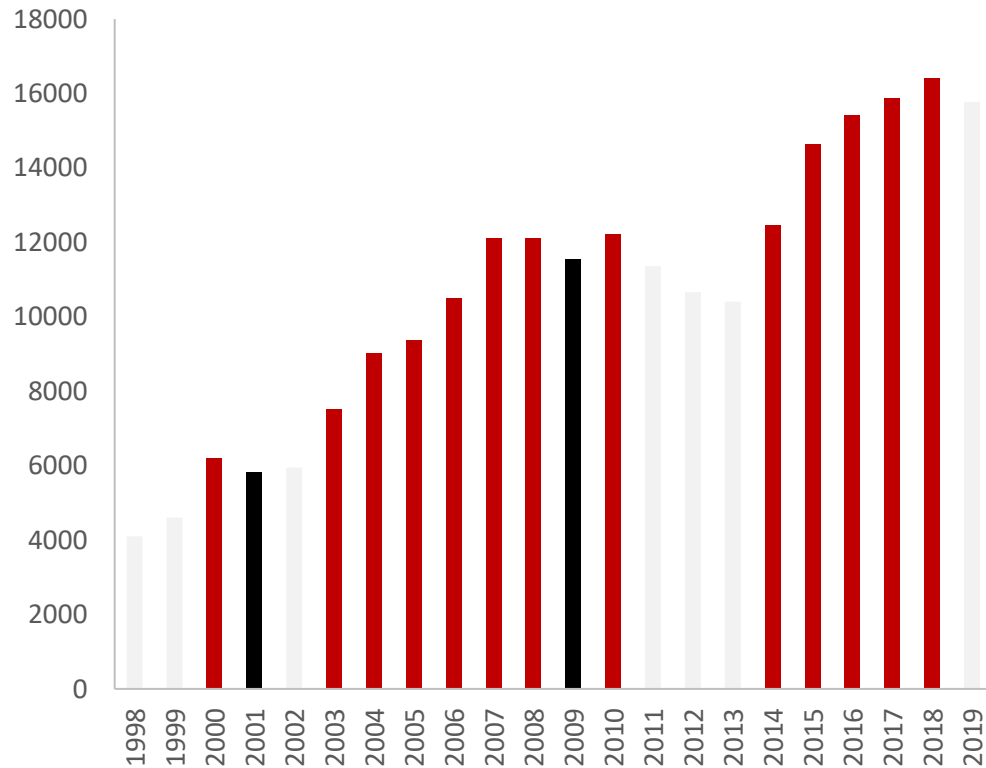
M&A Activity Levels (1998 to 2019) - Europe



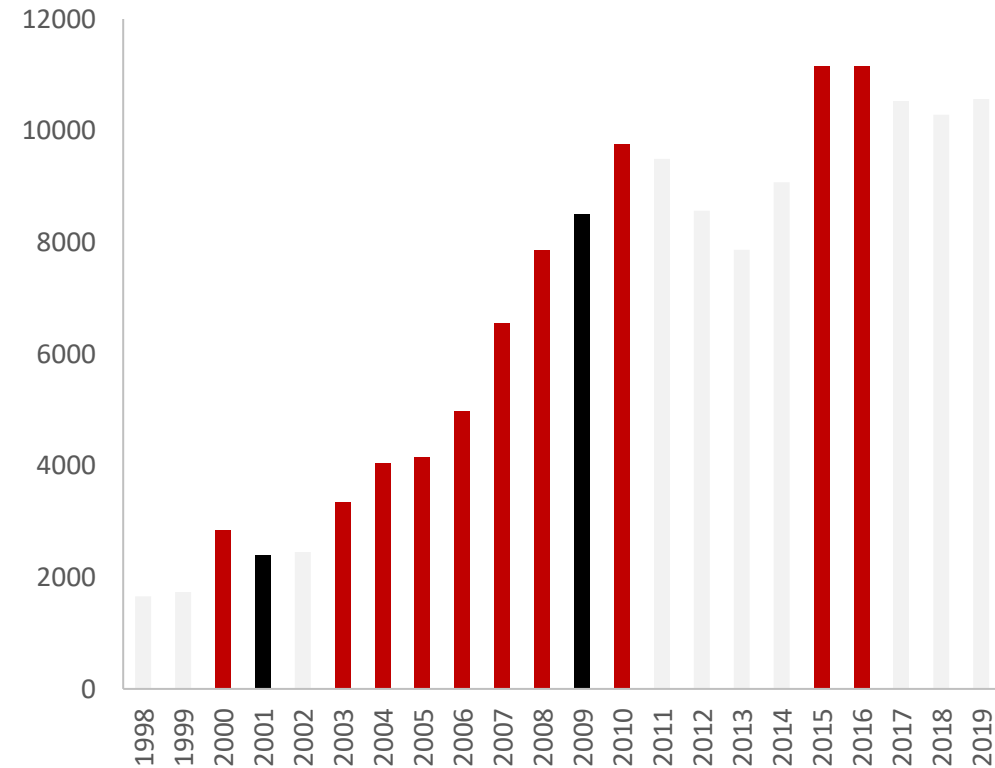
M&A Volume
 Peak M&A Volume
 Global Recession

Similar trends could be observed regionally...

M&A Activity Levels (1998 to 2019) - Asia Pacific



M&A Activity Levels (1998 to 2019) - BRICS



M&A Volume
 Peak M&A Volume
 Global Recession

Whereby, regional M&A markets underwent a recovery period of 5-7 years following a global economic recession

- M&A activity reached peak levels prior to both the 2001 and 2009 recessions, mirroring peak economic activity and bull markets that existed as precedents to the dot com bubble in 2000 and the housing bubble in 2008
- During the 2001 recession, all regions recorded a decline in M&A activity within the first year of the recession.
- However in the 2009 recession, all regions recorded double digit declines in the first year of the recession with the exception of the Asia Pacific and the BRICS regions.
- Notably, the BRICS region recorded a growth of 8.2% YoY in M&A activity during this period with many cross border M&A deals taking place as investors from recession hit markets looked for diversification opportunities in the high growth BRICS region.
- It could also be observed that a more severe recession results in a longer recovery period as evidenced by how the recovery period for 2009 was longer than 2001

All regions underwent recovery phases albeit with different lengths

Region	Recovery Period (no of years)	
	2001 Recession	2009 Recession
Global	4	6
North America	5	7
Europe	5	6*
MENA	5	0
South America	5	1
Asia Pacific	1	3**
BRICS	1	5**

**Europe never surpassed its 2007 peak of 18,441 deals but recorded 18,126 deals after a 6 year downturn*

***Effect of the 2009 recession on M&A volume in these market took place after 2010*

M&A activity took center stage in capex heavy, manufacturing oriented industries – post 2008

- It could be observed that in 2009, M&A activity witnessed growth in the Banking sector as government sponsored M&A activity took place on account of the many corporate bailouts and liquidations of banking giants such as Lehman Brothers and Bear Sterns.
- Two years after the financial crisis however, there was a double digit YoY growth in M&A activity in capex heavy, manufacturing oriented industries such as chemicals, consumer products, machinery, retail and steel.
- The largest deals (in terms of value) in 2010 were observed in similar capex heavy industries such as Telecommunications, Healthcare and Media.
- These deals resulted in the solidifying of market share for most acquirers (America Movil's acquisition of Carso Global and Telmex) while some acquirers witnessed greater control over supply chains (Coca Cola's acquisition of its bottling business).

YoY Growth In Global M&A Volume Post 2008 Financial Crisis				
Industry	2008	2009	2010	2011
Aerospace and Defense	-4.3%	0.6%	7.3%	-5.8%
Automobiles	1.8%	-1.0%	6.2%	-2.3%
Banking	27.4%	17.0%	-11.1%	-19.6%
Biotech & Pharma	3.6%	-3.3%	0.5%	-9.4%
Chemicals	5.3%	-21.8%	20.1%	1.1%
Consumer Products/services	-1.3%	-16.6%	10.3%	-2.8%
Containers and Packagers	-13.5%	-21.0%	4.8%	21.8%
Energy and Power	1.0%	1.6%	2.8%	-6.7%
Healthcare	-9.5%	-6.4%	7.4%	-0.2%
Insurances	-2.3%	-18.0%	-3.8%	4.7%
IT	-11.8%	-19.7%	2.4%	3.7%
Machinery	7.4%	-26.4%	18.5%	0.8%
Media & Entertainment	-17.9%	-11.6%	4.2%	4.0%
Retail	-11.5%	-12.7%	10.4%	8.3%
Software	-4.9%	-26.8%	3.3%	9.5%
Steel	0.3%	-20.6%	15.0%	-12.1%
Telco	-19.9%	-13.3%	4.8%	-18.1%

History can repeat itself in 2020 – for those industries with high operating leverage

- The Great Lockdown we are currently facing is expected to result in a 3.0% global GDP contraction according to the IMF; a scenario worse than the Great Recession in 2009 which only witnessed a 0.1% global GDP contraction.
- As higher severity leads to a longer recovery period for M&A activity, we cannot rule out that a global M&A recovery could be longer than 4-6 years post 2020, especially as lockdowns prevent businesses from conducting due diligence and face to face meetings.
- However it is also inevitable that as observed in the 2009 recession, many capex heavy manufacturing oriented industries such as chemicals, consumer products, machinery, retail and automobile will no doubt be hampered with their high operating leverage becoming unsustainable in a demand stagnant economy.

Additionally, an existential crisis has washed ashore for cyclical industries - ripe for M&A

- Airlines and the Hospitality industries face an unprecedented existential crisis with low to zero bookings in lieu of travel restrictions.
- These industries would face liquidity and going concern issues, which for an investor with a long term outlook would present many M&A targets with depressed valuations that could be profitably acquired.



Therefore, the Great Lockdown should not quarantine you from the M&A market

- At the same time, an investor with a medium term outlook could also find opportunities in technology; the stock market darlings that are now at record low valuations.
- Same goes for essential energy companies which are hampered by the lowest oil prices in history.
- In conclusion, the Great Lockdown should not quarantine you as a corporation or an investor from seeking out mid to long term oriented business and investment opportunities in the M&A market, especially as it is inevitable that such deals would resurge post this recession period.
- A significant upside can be earned by investing in a market with depressed valuations, the likes of which we are seeing today.

Note: Data was extracted from Institute for Mergers, Acquisitions and Alliances (IMAA)

Summary

- The Great Lockdown that has stemmed from the COVID – 19 crisis has sown the seeds for a global recession – which undoubtedly would lead to a peak in M&A activity as observed in recent history
- Worldwide M&A activity reached peak levels after a 4-6 year cycle following the 2001 and 2009 economic recessions
- Capex heavy, manufacturing industries such as Chemicals, Consumer products, Machinery, Retail and Steel businesses posted double digit YoY growth in M&A activity following the 2009 economic recession
- The above industries including the present day crisis hit Hospitality, Airline and Energy industries could undeniably witness a surge in M&A activity following the COVID – 19 led economic recession in 2020
- The Great Lockdown should not quarantine you as a corporation or an investor from seeking out mid to long term oriented business and investment opportunities in the M&A market – as a significant upside can be earned by investing in a market with depressed valuations



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South Asia

India, Sri Lanka & Bangladesh

Asia Pacific & Oceania

Australia

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United Kingdom

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Angola	Moldova
Armenia	Namibia
Argentina	Nepal
Bhutan	Norway
Belarus	Pakistan
Belize	Palestine
Bulgaria	Singapore
Cameroon	Sweden
Denmark	Switzerland
Ethiopia	South Africa
Georgia	Tajikistan
Ghana	Tanzania
Hong Kong	Turkmenistan
India	UAE
Italy	Ukraine
Kazakhstan	Uzbekistan
Kenya	Vietnam
KSA	Yemen

*These are organizations for whom MTI has carried out projects – at some point in time during the last 23 years.

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