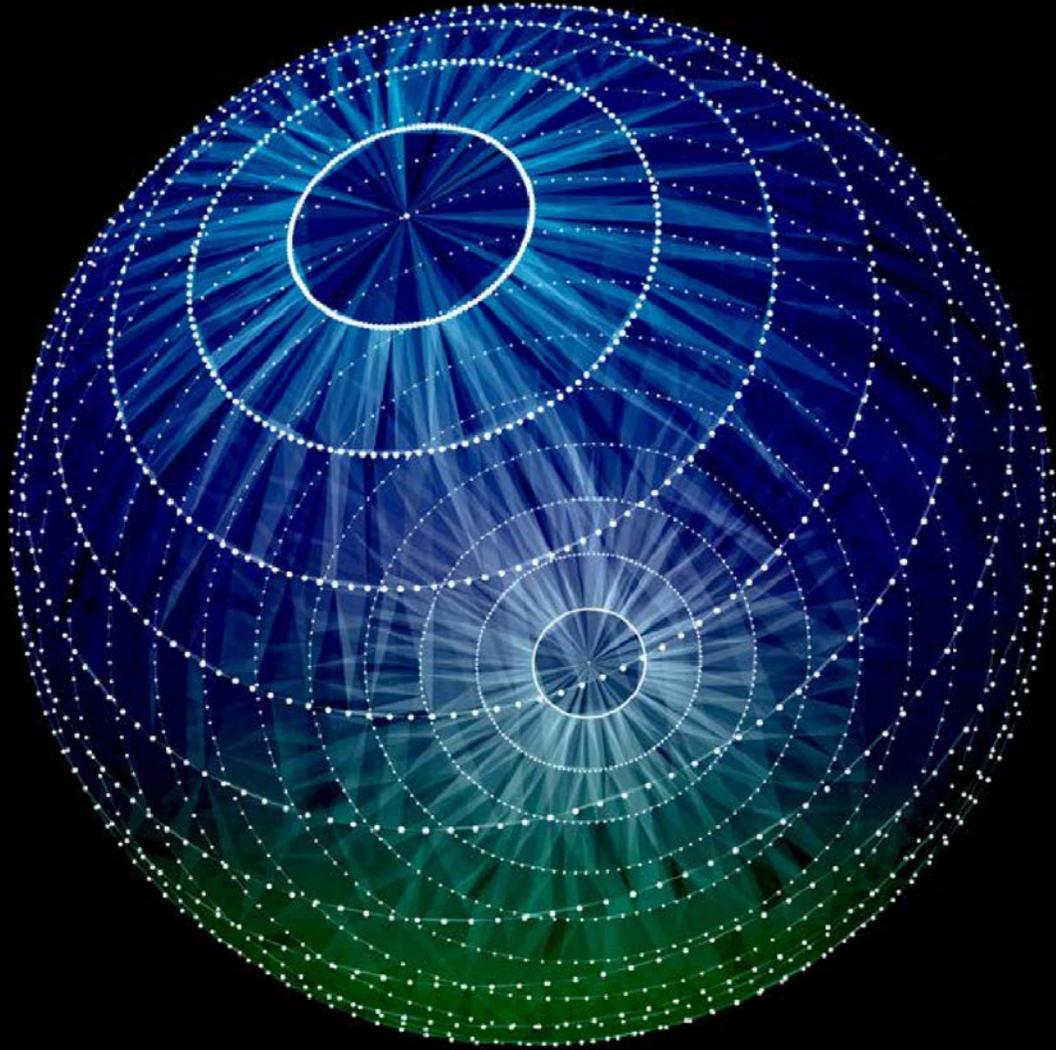


**Deloitte.**



Charting new horizons  
M&A and the path to thrive

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**A typical crisis has three acts: respond, in which a company needs to manage continuity; recover, to learn and emerge stronger; and thrive, where the company prepares and shapes itself for the new normal conditions.** Globally, companies responded and recovered from the pandemic conditions by launching significant metamorphoses, and mergers and acquisitions played an instrumental role in this journey. Indeed, in 2021, against the backdrop of the most challenging conditions, corporates and private equity firms spent an unprecedented \$5 trillion on M&A, the highest activity ever recorded.<sup>1</sup>

**M&A strategies are now firmly cemented as a fundamental part of the corporate arsenal, both in defense to preserve value, as well as in offense to drive transformative growth.** We anticipate a new combination of defensive and offensive M&A strategies will emerge and play a central role in helping companies fortify their gains, accelerate change, and capture market leadership.

**In parallel, technology-led disruption is fueling cross-sector convergence, leading to unique opportunities to create new businesses and market segments.** These dynamics have necessitated the expansion of traditional M&A strategies to include collaborative structures such as joint ventures, partnerships, and ecosystem alliances that are not bound by sector boundaries, instead focusing on common purpose and values.

**The renowned statesman Benjamin Franklin observed that “by failing to prepare, you are preparing to fail.”** As corporate leaders prepare their organizations to adapt and thrive in the new era, the capacity to balance resilience and transformative growth with corporate sustainability and trust will likely be the hallmarks of success.

# Insight in brief

**The emerging post-pandemic global landscape seems a world away from the past.** The conflict in Ukraine and the unfolding human tragedy has fundamentally shifted the tectonic plates of geopolitics and could result in consequential changes to economies, global trade lanes, supply chain systems, and the green energy transition.

**Corporate leaders need to adapt their organizations for these systemic and structural changes, against a backdrop of rising global inflation, interest rate hikes, supply chain realignment, increased regulatory hurdles, and renewed activist pressures.** As part of this reset, they should also anticipate greater public scrutiny of corporate environmental, social, and governance (ESG) responsibilities and investor expectations, to deliver profits with purpose.



# In retrospect: M&A wave of 2021

In our previous Insight report, *Charting new horizons*,<sup>2</sup> released at the onset of the pandemic, we anticipated this crisis was different from the one from 2008 and correctly postulated that M&A will play a central role in business response and recovery.

Back in 2008, the great financial crisis resulted in a sharp decline in M&A and the markets did not recover until 2014. However, this time around, the markets came roaring back, as companies took advantage of their strong cash reserves, low-interest-rate conditions, and favorable debt markets to make M&A central to business recovery.

The M&A markets broke new ground in 2021. Around \$5 trillion worth of deals were announced, easily surpassing the previous highs of \$3.66 trillion in 2015. Even in terms of volumes, a record 62,600 deals were announced, some 25% higher than in 2020, an uptick spread across small-, mid-, and large-cap segments. In a sure sign of confidence, around 144 megadeals (>\$5 billion) were announced, 65% higher than the previous year.<sup>3</sup> Also, in stark contrast to 2008, when private equity firms made a dramatic retreat from the markets and deal flows dropped by 65% to \$253 billion,<sup>4</sup> this time they were one of the driving forces in the market, spending a record \$1.7 trillion on buyouts, culminating in a growth of 124% over the previous year.<sup>5</sup>

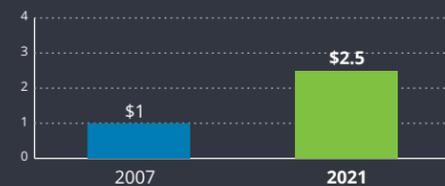
## Lessons from two crises

### Global corporate cash and short-term investments (in trillions of US dollars)



Source: Bloomberg database, accessed on March 11, 2022

### Private equity dry powder (in trillions of US dollars)



Source: PE dry powder - Preqin

### OECD developed economies central bank rate (percentage)

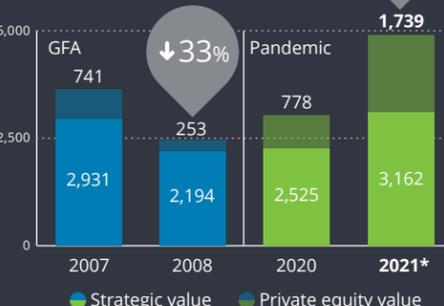


Source: Bloomberg database, accessed on March 24, 2022

| Key drivers                         | Global financial crisis   | COVID-19 crisis  |
|-------------------------------------|---|--|
| <b>Speed of crisis and recovery</b> | <ul style="list-style-type: none"> <li>Over 18+ months</li> <li>M&amp;A recovery took 5 years</li> </ul>          | <ul style="list-style-type: none"> <li>Matter of weeks</li> <li>M&amp;A recovery took just one quarter</li> </ul>                  |
| <b>Sector impact</b>                | <ul style="list-style-type: none"> <li>Financial Services, Real Estate</li> <li>Leveraged loans market</li> </ul> | <ul style="list-style-type: none"> <li>All industries and most sectors</li> <li>Notably travel, hospitality, and retail</li> </ul> |
| <b>Governments</b>                  | <ul style="list-style-type: none"> <li>Focus on rescuing banks</li> </ul>   | <ul style="list-style-type: none"> <li>\$8T support deployed "rapidly" across all economic sectors</li> </ul>                      |
| <b>Financial system</b>             | <ul style="list-style-type: none"> <li>Under-capitalised</li> <li>Unable to lend, needed rescue</li> </ul>        | <ul style="list-style-type: none"> <li>More resilient</li> <li>Conduit for (government) lending</li> </ul>                         |
| <b>Private equity</b>               | <ul style="list-style-type: none"> <li>Priority was portfolio support/refinancing</li> </ul>                      | <ul style="list-style-type: none"> <li>Private equity was the driving force in the recovery</li> </ul>                             |
| <b>Business priorities</b>          | <ul style="list-style-type: none"> <li>Salvage Value</li> <li>Delivering focus</li> </ul>                         | <ul style="list-style-type: none"> <li>Business continuity</li> <li>Safeguard markets</li> </ul>                                   |

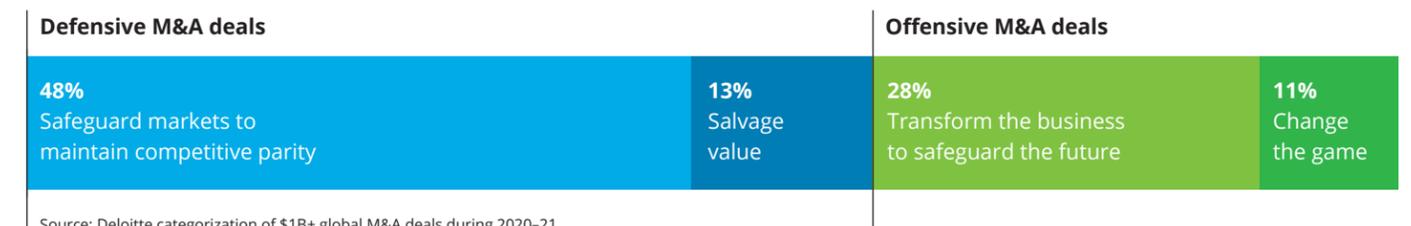
Source: Deloitte perspectives and analysis based on data from Refinitiv and Bloomberg

### M&A trends compared between GFA and pandemic crisis (in billions of US dollars)



Source: Deloitte analysis based on data from Refinitiv

Figure 1: Corporate M&A strategies in 2020-2021

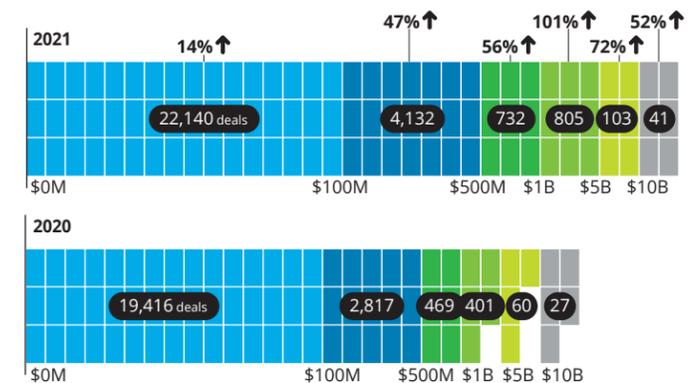
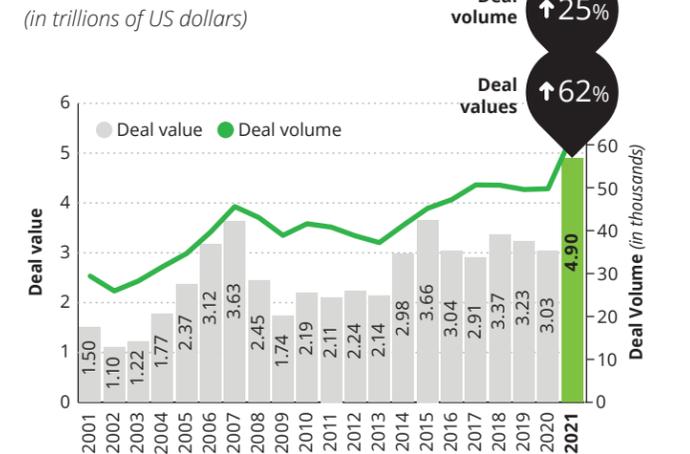


Source: Deloitte categorization of \$1B+ global M&A deals during 2020-21

Given how the pandemic impacted each industry, sector, and region differently, the respective recovery cycles progressed at different levels of velocity. This meant the portfolio of response options was likely to be asymmetrical and was a more complex undertaking than in prior market contagions. Hence, the evaluation of an organization's ability to act should be reframed to include not only financial considerations, but also operating model agility, strategic positioning, capital return horizon, and brand permission.

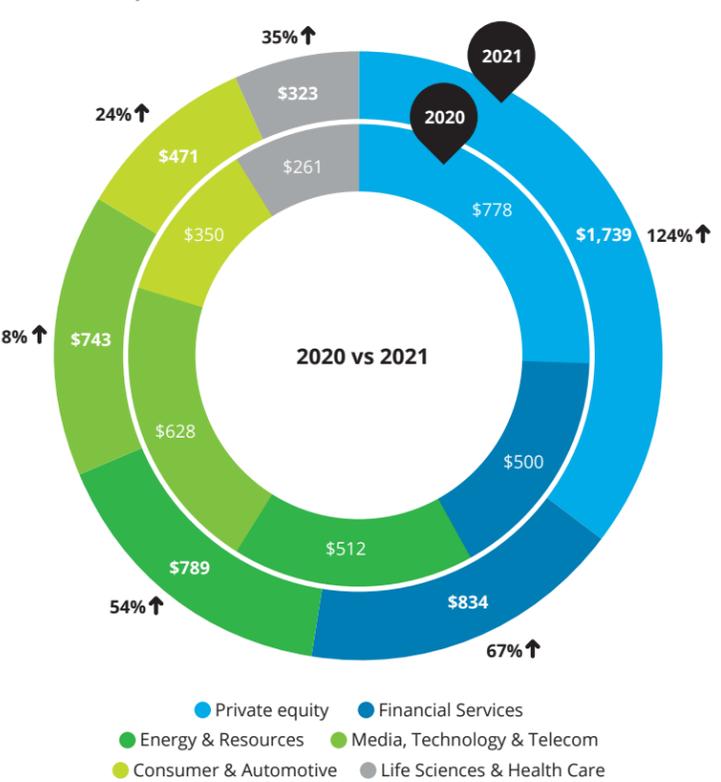
In sectors such as aviation, automotive, retail, and hospitality & leisure that were disadvantaged by the conditions, some made significant defensive M&A moves to salvage value and stay afloat, while many made consolidation moves to safeguard their market positions. On the other hand, sectors including health, shipping, technology, and telecoms, which experienced a boost in demand, were on the offense and initiated major M&A transactions to boost revenues and capture new markets. The standout feature of this market was all sectors and regions benefited from a surge in deal flow.

Figure 2: Global M&A volume and values 2001-2021 (in trillions of US dollars)



Source: Deloitte analysis based on data from Refinitiv

Figure 3: Global M&A sector breakdown (in billions of US dollars)



Source: Deloitte analysis based on data from Refinitiv and subjective analysis of deal archetypes

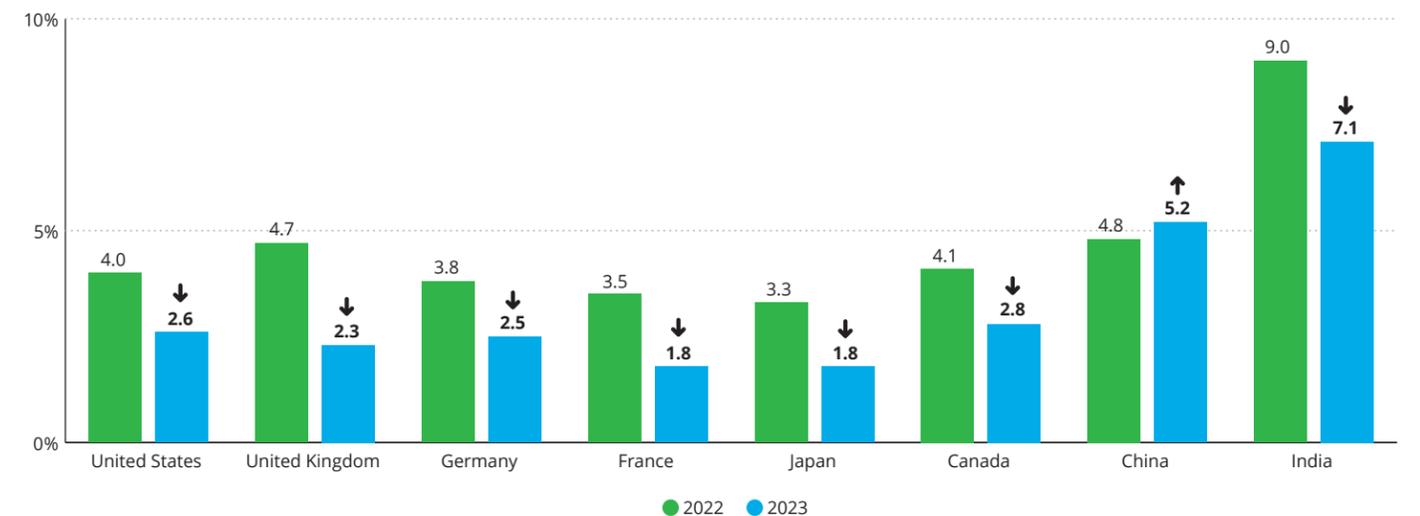
# Prelude to the future

At the start of 2022, the market sentiment remained highly positive, and Deloitte’s Future of M&A Trends Survey from the United States showed nearly 70% of the respondents expected to remain active in M&A markets.<sup>6</sup> At the same time, the market conditions are rapidly evolving—the contagion risks of the Russia-Ukraine conflict potentially threaten globalization. The steep rise in commodity prices linked to these two countries, along with the inflationary pressures, are impacting most sectors either directly or indirectly and adding immense pressure to their already stressed supply chains. It is therefore not surprising as the IMF projects weak growth across most major economies and the threat of recession looms large.<sup>7</sup>

Central bankers have indicated they will use rapid interest rate hikes to contain inflation. Companies need to recalibrate their debt strategies to reflect the changing market conditions and prepare for rising interest rates and possible lender limitations on cyclical businesses. There remain substantial levels of liquidity in the debt markets, and we expect there will be a strong lending appetite for highly defensive assets; however, lenders will also set a high bar on diligence for assets exposed to economic cyclicality, commodity prices, supply chain disruptions, and inflationary pressures.

Fund managers representing a total of \$121 trillion of assets under management (AUM) have signed up to the UN Principles for Responsible Investment (PRI),<sup>8</sup> and they are increasingly holding companies accountable for performance on ESG parameters. Many limited partner (LP) investors are also putting pressure on private equity and venture capital firms, and this has led to the launch of the ESG Data Convergence Project to advance standardized ESG reporting, driving more meaningful portfolio performance comparison and investment transparency.<sup>9</sup> Similarly, a Deloitte survey shows 60% of CFOs believe their overall performance on ESG issues has an impact on their cost of capital.<sup>10</sup>

**Figure 4: Growth forecast by IMF**  
(percentage)



Source: IMF website

# Navigating toward new horizons

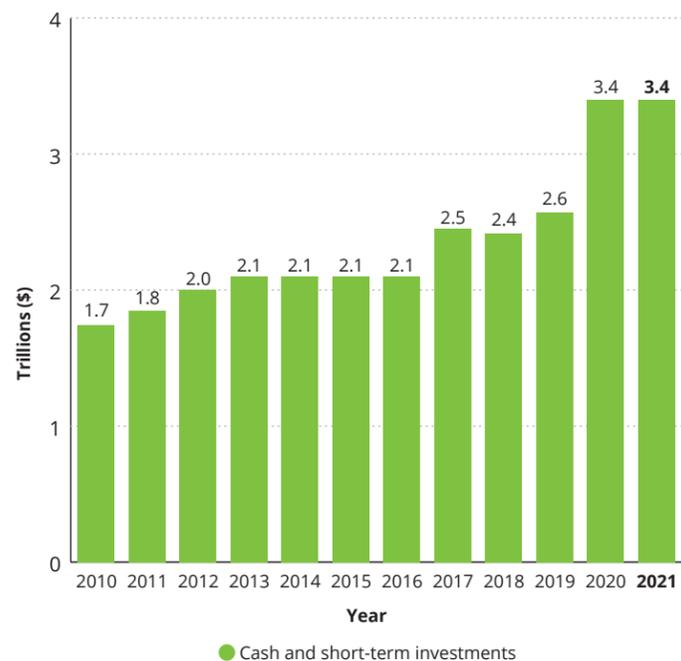
We anticipate the following tailwinds and headwinds to influence the M&A markets:

## Harnessing the tailwinds

### Record cash reserves

Since the onset of the pandemic, companies have taken decisive measures to bolster their cash piles, now amounting to a record \$3.5 trillion.<sup>11</sup> Collectively, this represents a very substantial arsenal. Dealmakers would be wise to heed the lessons of the 2008 financial crisis, when a compulsive cash accumulation culture emerged in the aftermath, and it inhibited the evolution of potential future-shaping investments and deals. A Deloitte study, "The cash paradox,"<sup>12</sup> found the markets were highly rewarding of companies that invest excess cash in the pursuit of growth, and such companies managed to grow their share price at an astonishing rate of 632%, compared to 327% growth rate of their cash-hoarding counterparts.

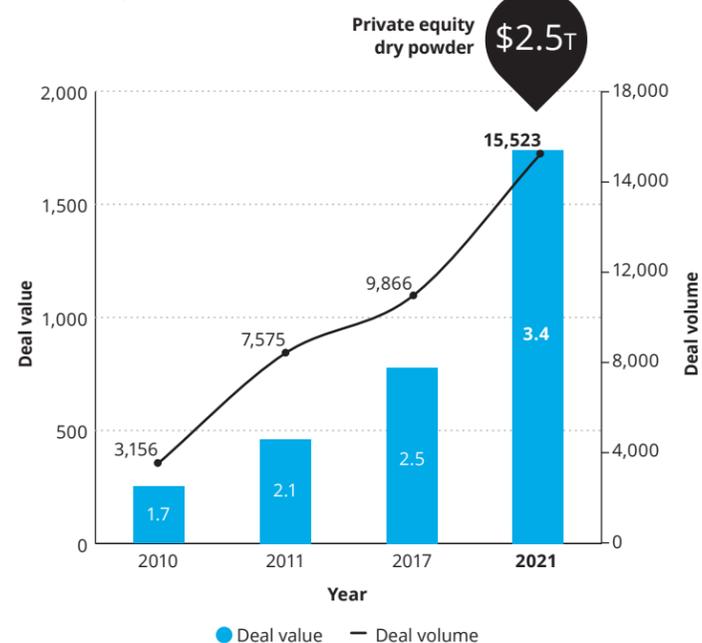
**Figure 5: Record levels of corporate cash reserves**  
(in trillions of US dollars)



### Private capital

As of 2021, private equity firms are sitting on an estimated \$2.5 trillion of "dry powder"<sup>13</sup> and we anticipate for them to be highly active in the M&A markets. Increasingly, they are looking beyond financial reengineering to favor technology platform plays, digital transformation opportunities, and investments that are aligned with macro themes such as ESG. Meanwhile, we are also seeing private equity increasingly invest in the growth capital segment, competing with traditional venture capital funds, which invested a record-breaking \$612 billion<sup>14</sup> in disruptive startups and increasingly expanding into emerging markets such as Africa.<sup>15</sup> Pension funds, family offices, and sovereign wealth are also making their mark on M&A markets. Historically, they placed their vast resources with wealth and private equity funds; however, we are also seeing a growing number of these investments being handled directly in-house. In recent months, they have directly acquired assets in a range of sectors such as transportation and renewables sectors.

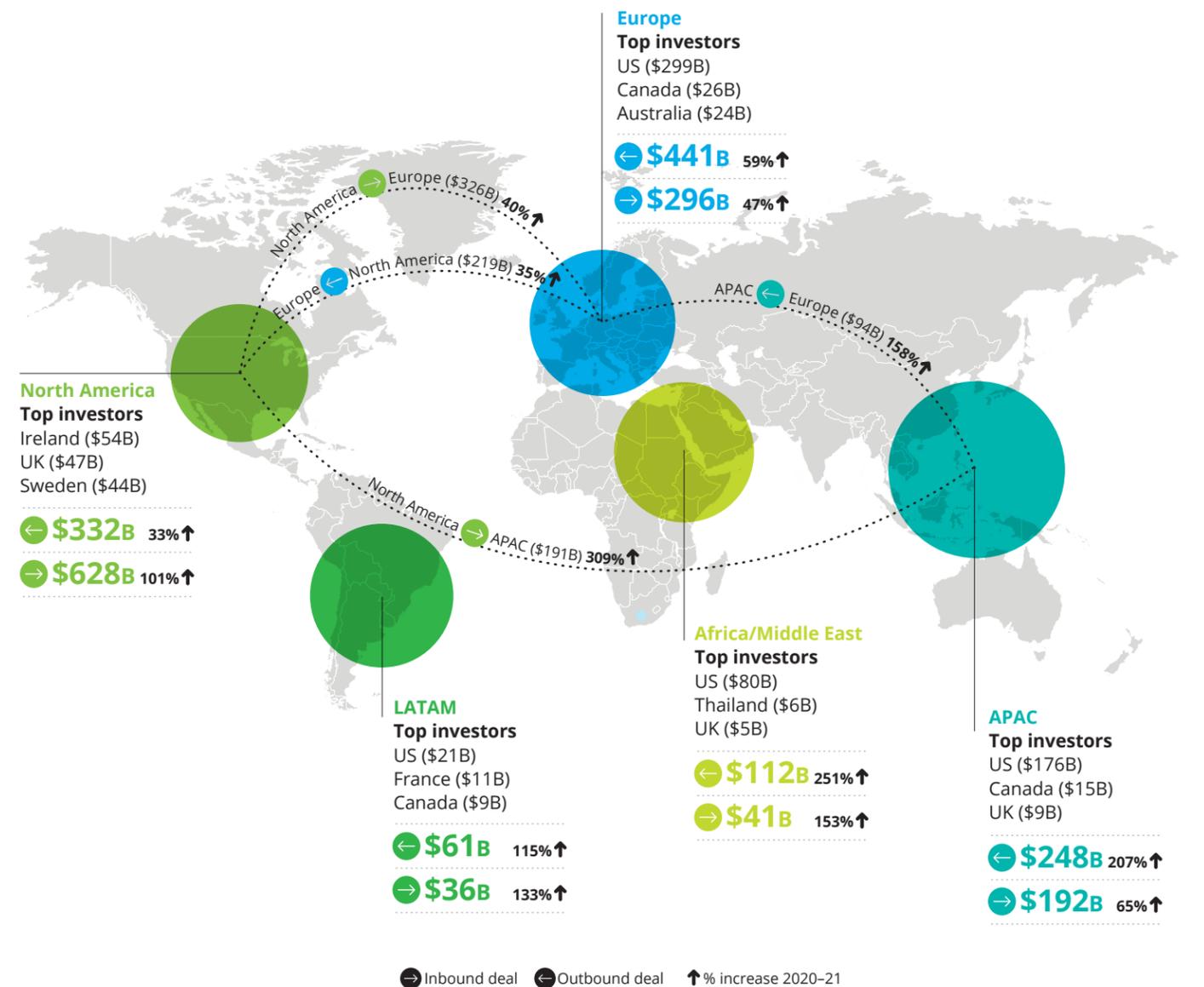
**Figure 6: Strong appetite from private equity**  
(in billions of US dollars)



### Cross-border trade lanes

In 2021, cross-border M&A reached record levels. The North America-Europe M&A corridor was the busiest with \$545 billion worth of deals. In addition, North American investment into the Asia Pacific region grew by triple digits to reach \$191 billion.<sup>16</sup> We anticipate this trend to continue, as a recent Deloitte snap poll shows 68% of US companies are considering international markets for new growth opportunities.<sup>17</sup> From Asia, Japanese companies are leading the outbound wave focusing on transformative cross-border deals aimed at reorienting their portfolio toward growth and sustainability assets.

**Figure 7: North America-Europe and Asia-Pacific-North America were the major deal corridors**



## Maneuvering the headwinds

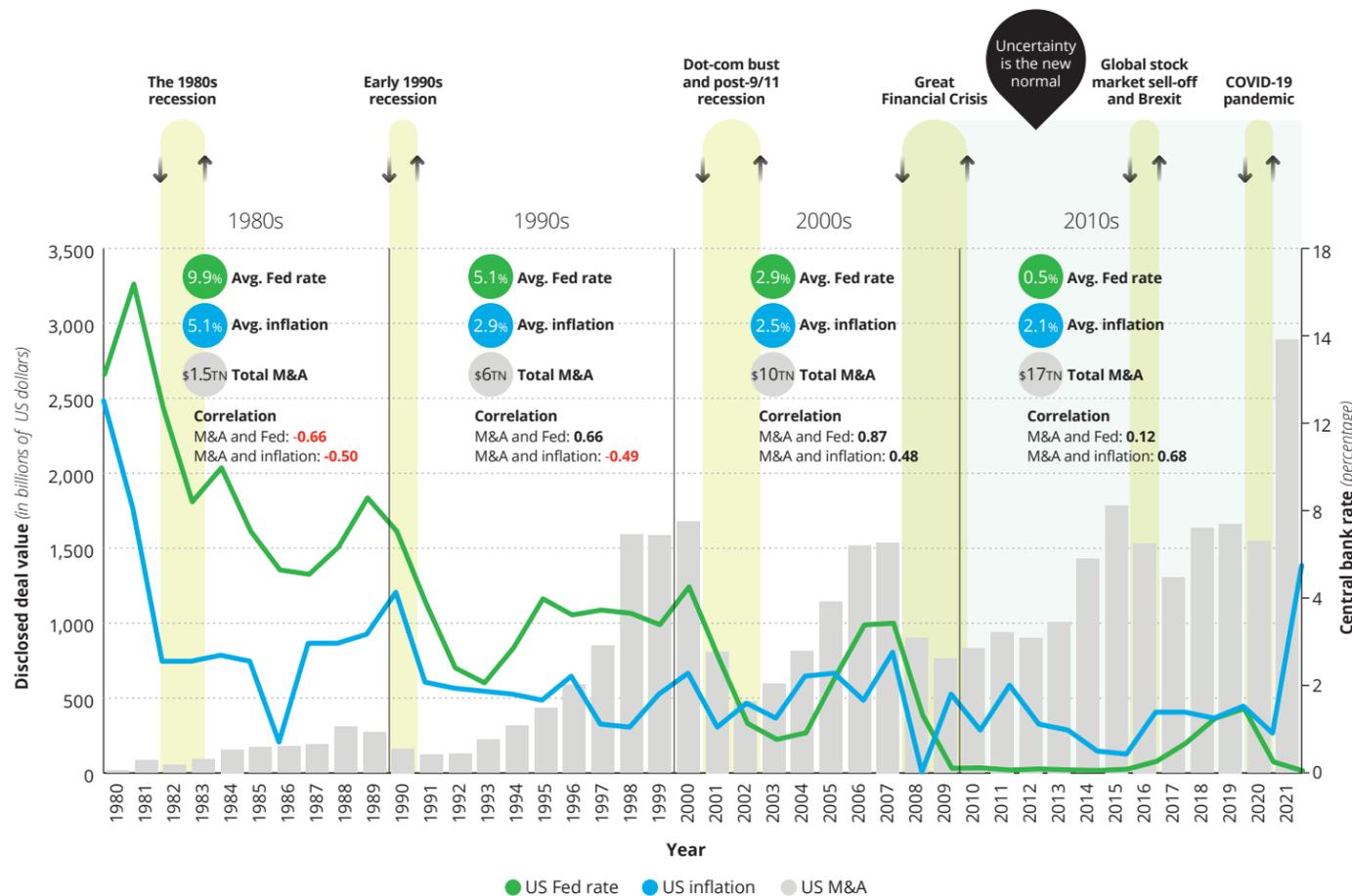
### Rising inflation and interest rates

The sharp revival of inflation has started to put pressure on consumer spending. In response, many central banks have indicated they will tackle inflationary pressures with interest rate hikes. At the same time, the US Treasury yield curve has started to flatten, which tends to suggest investors are expecting an economic slowdown.<sup>18</sup>

Such conditions also put pressure on corporate profits, bonds, and stock prices. It could prompt companies to review cash flow forecasts and recalibrate financial strategies to factor in inflationary pressures and expectations of interest rate hikes in their business models. Some might consider divesting non-core assets to free up working capital. Others may opportunistically acquire competitors to buffer against rising input costs, through procurement synergies, digitization efficiencies, and boosted pricing power.

Interestingly, a Deloitte analysis of the nearly 40 years of historical US M&A, inflation, and Federal Reserve interest rate data shows only moderate correlation between M&A and those macroeconomic indicators. In fact, during the five years to 1999, as well as in 2007, an upward M&A cycle was undeterred by both rising inflation and hawkish rate setting. We also found strong historical evidence that M&A markets tend to recover quickly from crisis conditions once uncertainty subsides as dealmakers rapidly adapt to the new environments and prefer to create their own momentum.<sup>19</sup>

Figure 8: Impact of inflation, interest rates, and crisis periods on M&A markets



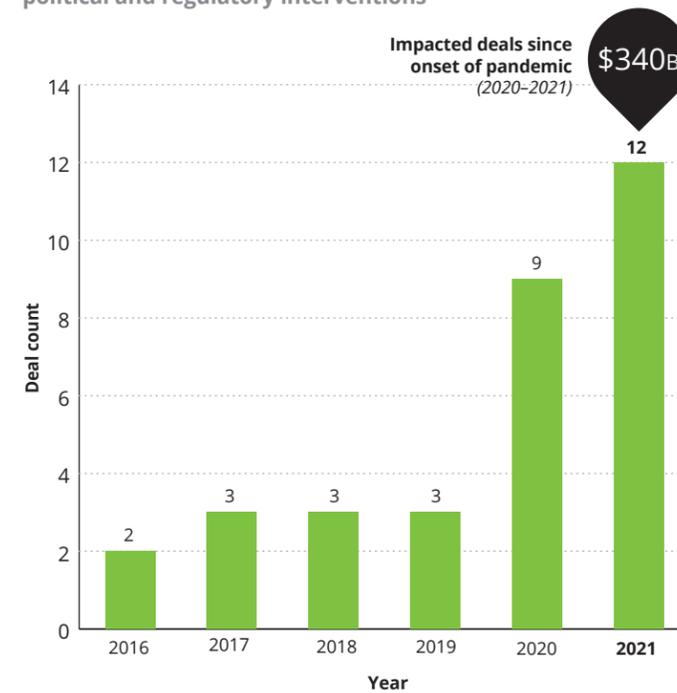
Source: Deloitte analysis based on data from Refinitiv, US Bureau of Labor Statistics, and US Federal Reserve Bank

### Regulatory hurdles

The elevated levels of M&A activity are catching regulators' attention, and amid severe scrutiny, some \$340 billion worth of deals were impacted since the onset of the pandemic.<sup>20</sup> There is also constant pressure on deals from activist funds, shareholders, and even consumers, creating further uncertainties.

Companies will need to demonstrate the long-term benefits of their deals to regulators and broader stakeholders, against a backdrop of protectionist instincts that are clouding M&A. Crucially, whenever a deal is thwarted, investors will expect a "Plan B" strategy to be instigated promptly. Deloitte analysis shows that within one year of a proposed transaction's withdrawal, around half of acquirers and targets remained active in the market and completed new deals.<sup>21</sup>

Figure 9: Mega deals (>\$5B) stalled or withdrawn due to political and regulatory interventions

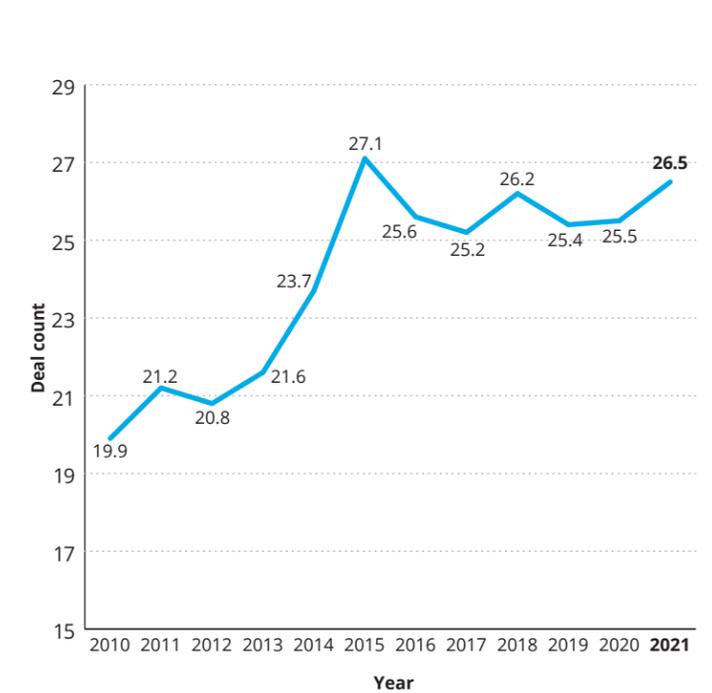


Source: Deloitte analysis based on data from Refinitiv and Mergermarket

### Rising valuations

In 2021, the average price-to-earnings deal multiple rose sharply to 26.5, the highest since 2015.<sup>22</sup> The pandemic conditions gave a boost to valuations in many sectors like home fitness and media streaming, but as the conditions and consumer habits change, recent financials may not be accurate predictors of future performance. When evaluating opportunities, companies should undertake rigorous valuation that is underpinned by dynamic modeling, scenario planning and detailed value extraction plans. This should help strike the balance between mature acquisitions targeting focused returns, and those based on the promise of exponential disruptive growth.

Figure 10: Global M&A price-to-earnings ratio deal multiples



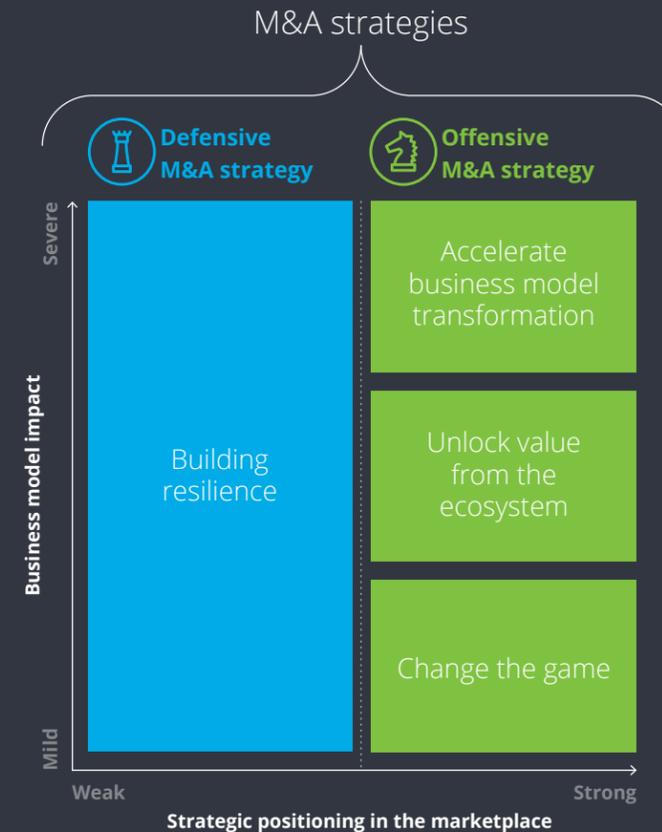
# Path to thrive: Rethinking M&A strategies

As we move toward a post-pandemic world, through previously uncharted paths, thriving in such an environment requires companies to reimagine the future of their markets, reexamine their core capabilities, and reevaluate their competitive advantages. In parallel, as part of long-term value creation, companies also need to consider the impacts of other macro themes such as digitization, technology shifts, climate change, health care and well-being, energy transition, skills shortage, and aging populations. This will help them make fundamental choices on growth strategies, prioritize the markets and segments where they need to play, identify gaps and the skills they need to win, and determine how to transform themselves in the process.

Building on our research from the original *Charting new horizons* report,<sup>23</sup> we have evolved the M&A framework to demonstrate a new set of defensive and offensive deal archetypes that are required to build resilient business models, accelerate transformation, unlock the potential of ecosystem alliances, and capture market leadership. Redefining M&A strategies in terms of these choices will bring much-needed clarity of purpose while paving the path to thrive.

In parallel, as part of long-term value creation, companies also need to consider the impacts of other macro themes such as digitization, technology shifts, climate change, health care and well-being, energy transition, skills shortage, and aging populations.

## Charting new horizons M&A framework



### Building a resilient company

- Accelerate synergy realization from recent deals, evaluate your current portfolio, and divest assets that are not aligned to long-term growth.
- Optimize your portfolio and strengthen your core by acquiring competitors to consolidate the marketplace.
- Consider opportunistic deals to secure your supply chain systems, safeguard your customer channels, and enhance market positioning.

### Charging the growth engine

- Transform your business model by acquiring value-enhancing products and capabilities. Identify portfolio gaps, and consider expanding toward market adjacencies through acquisitions in digital, ESG, and platform plays.
- Capture opportunities through purpose-led alliances and partnerships involving nontraditional peers and scale-ups from the ecosystem.
- Invest in disruptive innovation assets to scale at the "edge."

**Business model impact:** Consider the impact of post-pandemic structural changes on your employees, customers, suppliers, and operating model.

**Strategic positioning in the marketplace:** Consider your liquidity position, balance sheet strengths, ability to raise capital, competitive environment, threats of disruption, and drivers of competition in the marketplace.

# Defensive M&A: Building resilience

One of the lessons from the pandemic is that all companies, large or small, will need to firmly establish resilience at the heart of their business model and organizational culture. Building resilience can help ensure an organization is agile and adaptable, able to ward off threats from the marketplace, and prepared to deal with complex and unpredictable events in the future. We anticipate these defensive plays will materialize in several different ways:

## Cleaning the stables

### Accelerate synergy realization and deliver value

In 2021, shareholders gave approval for nearly \$5 trillion<sup>24</sup> worth of deals, and now the dealmakers involved can anticipate significant investor pressure to accelerate synergy realization and deliver value.

Investor reactions matter. In their new book, *The Synergy Solution: How Companies Win the Mergers and Acquisitions Game* (Harvard Business Review Press), Deloitte authors Jeff Weirens and Mark Sirower studied 1,267 deals over a 24-year period, collectively representing around \$5.37 trillion of equity value. They found that initial market reactions, positive or negative, are powerful predictors of how deals will eventually turn out. The authors identified clear evidence that acquirers who begin with a positive market reaction, and deliver on their promises, enjoy returns some 60 percentage points higher than acquirers who start by facing a negative reaction and go on to realize those negative forecasts.<sup>25</sup>

Building resilience can help ensure an organization is agile and adaptable, able to ward off threats from the marketplace, and prepared to deal with complex and unpredictable events in the future.

Most integration programs follow a consistent pattern of three phases: integrate to close, establish an interim operating state while investing for the future, and deliver the realization of the business case. The fundamental problem is most programs never go beyond an interim state due to changes in market conditions, insufficient management attention, and a business-as-usual mentality taking over. The longer post-close execution takes, the less likely management will be able to deliver the promised returns. Sophisticated acquirers transform as they transact, to accelerate the time-to-value of business case realization. Leveraging tools, such as predictive analytics, robotic process automation, and digital platforms, can help capture both cost and revenue synergies, ensuring a merger is far more than the sum of its parts.<sup>26</sup>

Additionally, based on Deloitte's work on thousands of deals, we estimate that tax synergies regularly represent more than 20% of available deal gains. Significant benefits can be found in tax alignment in the value chain—including among suppliers—and through improved operating footprints and integration strategies. Strategies such as capturing local tax credits and shifting some software to the cloud can contribute to the self-funding of digital transformations. Companies should be equally mindful of potential tax risks, with careful consideration given to the location of intellectual property rights and profit generation, as well as local presence stipulations.



## Defensive M&A

### Optimize the portfolio

Many companies are facing pressure from activist hedge funds for portfolio restructuring, from regulators pressing for asset carve-outs as a condition for merger approval, and from their own boards, which are keen to ensure companies remain on track with sustainability and net-zero commitments.

The 2022 Deloitte Global Divestiture survey found that seven in ten companies are considering making two or more divestments in the next two years, as they continue to focus on building resilience. The survey also shows that four in ten businesses are already selling carved-out assets at higher-than-expected prices, in part due to increased demand from private equity buyers.<sup>27</sup>

Becoming a prepared seller is more important than ever. The one-time cost of preparing to shed a business is rising, and two-thirds of the survey respondents say the cost of the atypical divestiture is 4% to 7% of the revenue of that asset, in sharp contrast to the less than 3% figure from our equivalent 2020 report.<sup>28</sup>

In addition, many companies are also reexamining their existing business through an ESG lens and identifying problematic assets to divest. Potential buyers are increasingly sensitive to risks around workplace inclusion and diversity, the supply chain, brand perception, and the impact of climate change. Given these shifts, ESG-related diligence and compliance are becoming key components of deal execution and post-deal transformation.<sup>29</sup> Recently, when a large private equity firm acquired the beverage division of a major consumer business company, it undertook additional diligence specific to ESG considerations and made it central to the investment process.<sup>30</sup>

## Strengthening the fortress

### Explore opportunistic deals to safeguard supply chains and competitive positioning

Global supply chain disruptions are impacting every sector, either directly or indirectly. In addition, changing stakeholder expectations toward ESG are putting pressure on businesses to fundamentally redesign their supply chain systems to improve transparency and reduce their carbon footprint.

M&A activities can play a key role in shaping the response. Companies could explore opportunistic deals to safeguard existing supply chains and consider innovative options such as backward or forward integration with suppliers. For instance, a major global retailer is considering starting a captive shipping company and acquiring its own containers to maintain seamless flow of goods.<sup>31</sup>

Companies could also consider strategic acquisitions of suppliers to maintain competitive positioning in the market. In response to the global semiconductor chips shortage crisis, a major chipmaker recently acquired a specialist chip contract manufacturer to boost its production capacity and safeguard its customer base.<sup>32</sup>

Businesses may look at consolidation to firm up competitive positioning. Among those already doing so is a major Canadian bank that acquired a competitor in the United States as it provided entry into growth markets, complementary capabilities to drive efficiencies, and the ability to capture powerful economies of scale.<sup>33</sup>

It is also important to consider co-investment and partnership opportunities with suppliers or even private equity firms, to pool capital and expertise toward investing in value-enhancing opportunities. For instance, a major global logistics company recently sold a minority stake in one of its subsidiaries to a private equity firm to tap into the fund's significant investment strength and expertise, jointly implementing a transformational value plan with new freight forwarding trade routes, additional growth verticals, and fresh M&A activities.<sup>34</sup>

# Offensive M&A: Charging the growth engine

As the first US President George Washington observed, “the best defense is a good offense.” Bold moves involving transformative acquisitions, ecosystem alliances, and disruptive investments will be required to charge the growth engine and lay the groundwork to capture market leadership. Companies clearly need to play offense to gain momentum, and we anticipate those efforts to materialize in several different ways:

## Accelerating business model transformation

### Capture the digital future

The pandemic conditions ruthlessly exposed companies that lagged in digital investment, omni-channel capabilities, and agile operating models, and at the same time they enabled new market opportunities for companies that were digitally prepared.

In a recent CEO survey by *Fortune* magazine and Deloitte, nearly two out of three executives indicated digital was their number one transformation priority.<sup>35</sup> Such change is an enterprisewide long-term commitment that cuts across business departments and technologies. Some companies will actively seek alliances and partnerships for these efforts, while others will acquire technologies and capabilities to accelerate their transition. In response to the significant growth in online shopping, a major heritage shipping company made multiple e-commerce logistics acquisitions in a relatively short space of time to rapidly scale its digital and integrated logistics capabilities.<sup>36</sup>

**Bold moves involving transformative acquisitions, ecosystem alliances, and disruptive investments will be required to charge the growth engine and lay the groundwork to capture market leadership.**

### Identify portfolio gaps and expand the value chain

Corporations need to regularly reevaluate their sources of competitive advantage, identify portfolio gaps, and consider opportunities for expansion. In a recent Deloitte survey of CFOs, opportunistic deals to fill gaps in product and service portfolios were rated the top M&A priority.<sup>37</sup> Establishing a pipeline of deals can expand a company's value chain and make it easier to capitalize on adjacent market spaces. Companies may also explore platform business models to expand and unlock the value of their customers and networks. For instance, a major technology business that specializes in financial software has acquired a marketing platform to significantly expand its service offerings and continue its transformation to become the leading AI-driven expert platform for small businesses.<sup>38</sup>

### ESG—delivering returns with purpose

Businesses are increasingly expected to demonstrate they can deliver returns with purpose and create value not only for their shareholders but also for their stakeholders, including employees, customers, suppliers, and societies where they operate. In turn, many companies are aligning their investment strategies with UN Sustainability Goals, a universally accepted framework for measuring progress against ESG goals. Impact investing is fast becoming a dedicated M&A strategy, and in 2021 around \$188 billion was spent by corporations on acquiring relevant assets, the highest figure on record.<sup>39</sup>

## Offensive M&A

Investing in ESG pathways requires companies to adopt a multidimensional M&A strategy. These could involve *product plays* by investing in businesses whose core product and services drive ESG improvement, such as those in waste management; *infrastructure plays* by investing in companies that provide the underlying infrastructure for sustainable solutions, such as those in vertical farming; and *technology plays* by investing in businesses that are using disruptive technologies to displace the market by creating new product categories, such as those using cell-based biotechnology to cultivate meat in laboratories.

## Unlocking value from the ecosystem

### Collaboration as a competitive advantage

One of the enduring legacies of the pandemic is how corporates embraced collaboration, forming the bedrock of global recovery. The post-pandemic transition will continue to bring significant challenges such as supply chain disruptions, skills shortage, climate change complexities, cross-sector convergence, and many others that cannot be solved unilaterally.

These dynamics have necessitated the need to expand the scope of traditional M&A strategies to include collaborative structures such as ecosystem alliances, partnerships, and other similar constructs that are not bound by traditional industry boundaries, but instead coalesce around common purpose and create shared value for the businesses, their clients, and their communities. It seems that every opportunity now needs to be considered through the lens of whether to build, buy, or collaborate.

Companies should actively reach out to a multiplicity of partners to build such purpose-led alliances and partnerships.<sup>40</sup> This could include allying with a diverse range of collaborators including suppliers, private equity firms, innovative startups, cross-sector specialist peers, or even traditional competitors. Among those already doing so, in the aviation sector, a progressive alliance of an aircraft manufacturer, industrial gas supplier, and airport operator has been formed to promote the use of hydrogen infrastructure and accelerate decarbonization of the aviation industry.<sup>41</sup>

## Changing the game

### Capitalize on cross-sector convergence

The rapid adoption of exponential technologies, digitization of businesses, and shifts in consumer attitudes are blurring traditional sector boundaries, leading to convergence of business models across disparate sectors. It is resulting in the further evolution of ecosystems and creating opportunities for innovators and nontraditional players to disrupt established companies by redefining the basis of competition.

This has unleashed a new paradigm of disruptive M&A, where in recent years companies have spent more than \$1 trillion investing in such disruptive assets.<sup>42</sup> Remarkably, the non-technology sector has overtaken the traditional tech sector's investment into such assets. Such deals are inherently linked to long-term transformation, and we expect it to remain as one of the defining features of the M&A marketplace. For instance, as part of its ongoing transformation, a conventional retail giant recently invested in a point-of-sale financing platform to jointly develop and extend innovative consumer financing solutions to its customers.<sup>43</sup>

## Scaling at the edge

Corporate venturing is a springboard to test new technologies, market offerings, and talent that can shape the future of sectors. As ecosystems mature, it is important that companies develop corporate venturing strategies and aligned capabilities such as horizon scanning and ecosystem engagement as an integrated approach to innovation-led business transformation. Such capabilities can give companies the confidence to build a portfolio of investments at the edge of their existing markets and establish strategic positions in transformational growth segments. For instance, a major consumer business company was using its venture arm to closely monitor scientific trends and technologies around conventional meat alternatives, and this informed its investment in a cultivated-meat startup.<sup>44</sup>

# M&A and the path to thrive

Sectors will evolve at different trajectories and paces. At the same time, technology-enabled convergence is blurring traditional sector boundaries and creating new market opportunities and customer segments. Companies need to reframe their growth options to include not only financial considerations but also operating model agility, competitive positioning, capital return horizon, and brand permission to enter new markets.

M&A strategies are now firmly cemented as a fundamental part of the corporate arsenal, both in defense to preserve value, as well as in offense to drive transformative growth. This framework can help companies articulate a new combination of M&A strategies to fortify their gains, accelerate business model transformation, and make horizon investments to capture lasting market leadership.

## Defensive M&A strategy

## Offensive M&A strategy

### 02 Cleaning the stables

Do you have a non-core asset divestment program in place? Do you plan for rapid asset transformation to enhance the sale value?

### 01 Accelerate synergies

Are you well-positioned to accelerate both cost and revenue synergies and demonstrate the wider stakeholder benefits?

### 03 Strengthen the fortress

How can you use M&A as a strategic response to shape responses to optimize the operating model and supply chain resilience and enhance your customer-centricity?



### 04 Safeguard competitive positioning

Are you actively monitoring the markets and prepared to move fast on opportunistic deals to consolidate segments?

### 05 Portfolio transformation

Are you undertaking a portfolio review and considering the implications of the "new normal" factors such as technology transformation and ESG on your current and future portfolio?

### 06 Digital acceleration and portfolio expansion

Are you considering M&A deals to accelerate digital transformation and develop platform and "as-a-service" plays to capture new revenues by expanding your portfolio into value chain adjacencies?

### 07 ESG and impact investing

Businesses are expected to demonstrate they can deliver returns with a purpose. Do you have a multidimensional view of ESG investment aligned with product, infrastructure, and technology plays?

### 08 Alliances

Are you exploring value creation opportunities through purpose-led alliances with a diverse range of collaborators, including nontraditional peers and innovative startups?

### 10 Scaling at the edge

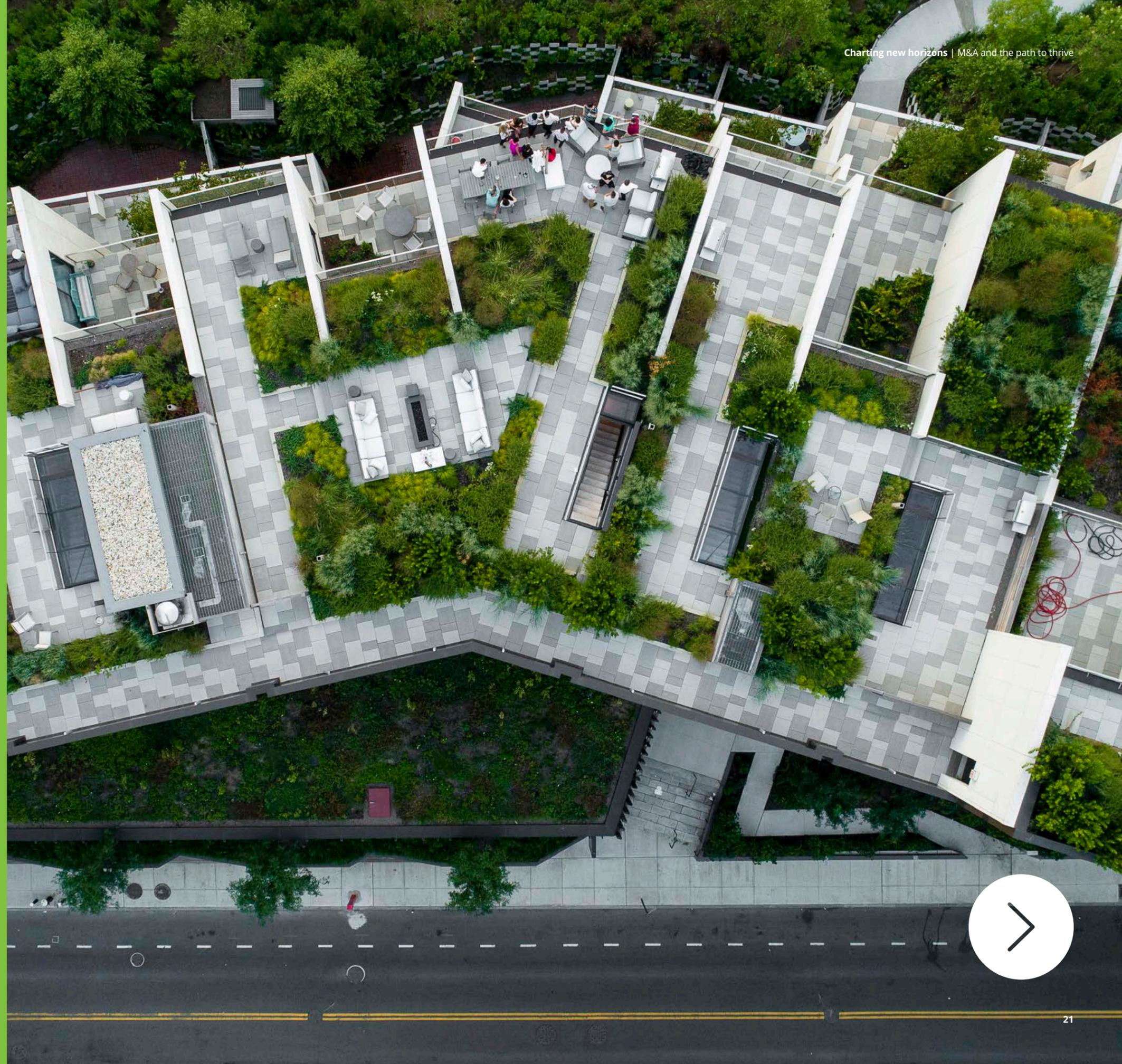
Do you have horizon scanning capabilities? Are you looking to build a portfolio of disruptive investments at the edge of your business to establish strategic positions in transformational growth segments?

### 09 Convergence

Are you actively looking to capture cross-sector convergence opportunities to create new products, customers, and market segments and position for market leadership?



# Sector M&A pathways



# Energy, Resources & Industrials

## Observations

After a year of subdued M&A activity in 2020 due to the pandemic, Energy, Resources & Industrials (ER&I) rebounded in 2021 with a 67% YoY growth in deal value to \$1,037B and 17% YoY growth in volume to 13,429 transactions.

North America with \$393B worth of deals was the most active region with respect to deal value, while Asia Pacific with 4,692 deals led in terms of deal volume in 2021.

Among subsectors, Power, Utilities & Renewables saw the highest YoY M&A growth as it hit \$185B in 2021.

Energy transition is the primary driver of M&A activity as oil and gas companies look at shifting their portfolios toward clean energy.

ESG growth areas such as carbon capture, hydrogen, renewables, and other clean technologies are expected to be key focus areas.

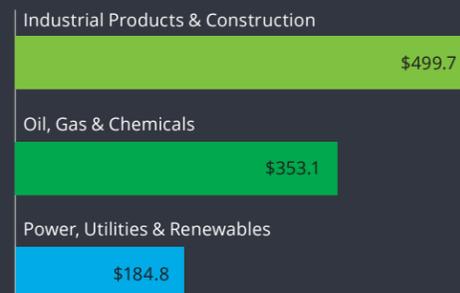
The sharp rise in global energy prices fueled by the Russia-Ukraine conflict may drive consolidation within the Oil, Gas & Chemicals subsector.

Industrial Products & Construction M&A activities are anticipated to pick up as companies invest in new capabilities such as digital and supply chain.

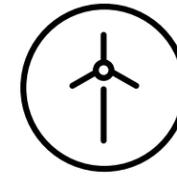
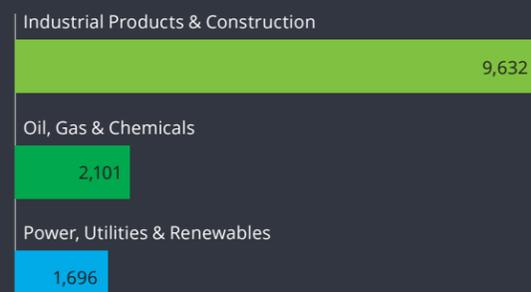
Energy, Resources & Industrials deal value and volume (in billions of US dollars)



Deal value by sector (in billions of US dollars)



Deal volume by sector



## Energy & Resources

### Forces shaping new normal conditions

#### Increased demand and constrained supply are driving changes

- A combination of supply constraints and geopolitical tension has resulted in energy price increases and is putting pressure on operating models that had become lean in recent years offset with low prices.

#### Decarbonization across industries is enabling new energy era

- Decarbonization mandates are gaining pace in all industries and present the opportunity for E&R companies to deliver scale projects and contribute to a low carbon future.

#### Green jobs will require new skills in the workforce

- Decarbonization commitments, flexible workforces, and requirements to reskill for digital and renewable capabilities will require companies to design new talent models.

#### Active portfolio monitoring

- Companies will need to monitor their portfolios to avoid carrying stranded assets as well as to avoid unnecessary divestment of assets that may prove profitable in other supply/demand environments.

#### Importance of customer-centricity will increase

- To thrive throughout the energy transition, fuel companies will need to offer a full suite of products and services.
- Companies will look to draw closer to end customers and incorporate convenience as key to the customer experience.

### Short-term responses

#### 1 Portfolio restructuring to drive energy transition

Companies are fundamentally rethinking their portfolio, seeking to divest higher carbon-intense assets, pursuing acreage consolidation, and acquiring assets aligned to energy transition.

#### 2 Investments to build future capabilities

Companies could use of the current high energy prices to make significant investments and acquisitions related to digitization and integrated value chain driving new revenue streams.

### M&A strategies



### Medium-term responses

#### 3 Energy transition alliances

The energy transition is attracting investments from nontraditional competitors in other sectors, as well as private capital. Companies should consider cross-sector alliances with companies in automotive, technology, and other sectors to gain direct access to customers and explore new revenue models.

#### 4 Sustainability-aligned growth segments

Companies should actively seek opportunities in adjacent markets such as chemicals, advanced plastics recycling and others where they can leverage existing expertise such as R&D and customer networks.



# Industrials

## Forces shaping new normal conditions

### Technology driving industrial connectivity

- Advancements in the Industrial Internet of Things (IIoT) and digital twin technology are driving significant innovation in solutions and business models.

### Digital solutions will lead to workforce evolution

- Digital-first solutions will impact the skill sets required from the workforce.
- Industrial companies will compete with tech firms for talent, while simultaneously upskilling their current workforce.

### Supply chain disruption impacting production times

- Long lead times for critical components are creating uncertainty in production planning and forecasting.
- Delays in manufacturing and port congestion will drive companies to identify resilient solutions for supply networks.

### ESG pressures will continue to grow

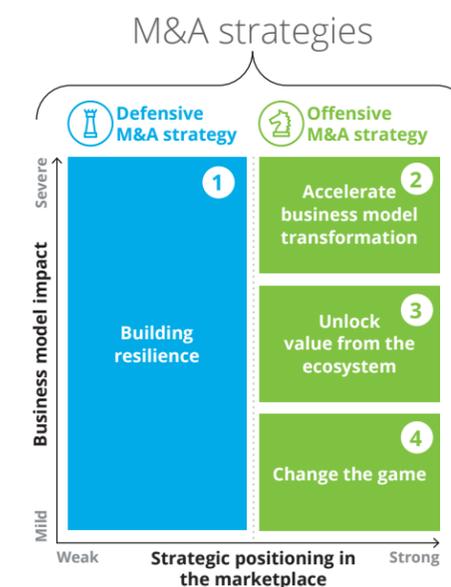
- Stakeholders will increasingly call for ESG commitments.
- Creating the factory of the future through smart technology and green energy will remain in focus.

### Rising raw material costs impact margins

- Shortage of supply along with increases in raw material costs and shipping rates have created pricing pressures.
- Unless contained, these cost rises threaten to outstrip the productivity gains and could significantly impact profit margins.

## Short-term responses

- 1 Strengthening of value chain**  
Acquisitions and investments related to vertical integration could help companies secure long-term suppliers and mitigate supply chain disruptions.
- 2 Shifts in core competencies**  
The inevitable shift toward sustainable processes and products is likely to impact the core competencies of many companies, and they should drive this change through targeted acquisitions.



## Medium-term responses

- 3 Technology alliances**  
Industrial companies should consider alliances with the technology sector to boost innovation and leverage specialist digital skills expertise.
- 4 Investing in disruptive technologies**  
Industrial companies should consider growth acquisitions in focused areas such as IIoT, robotics, automation, digital twin, and AI to drive long-term transformation.

# Consumer & Automotive

## Observations

The Consumer sector saw YoY growth of 70% in M&A value to \$909B in 2021.

North America was the most targeted region with \$365B worth of deals in 2021. Europe was at a distant second, with deals worth \$261B during the same period.

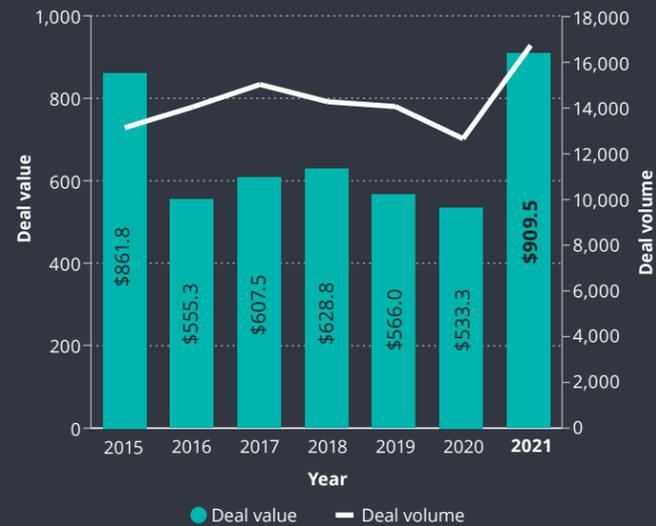
In terms of M&A volume, Europe was the most active region with 6,263 deals, followed by Asia Pacific (5,406 deals) and North America (3,985 deals).

Transportation, Hospitality & Services was the most active subsector with \$381B worth of deals, while Automotive saw the highest YoY growth at 166% to reach \$152B in 2021.

Some of the likely drivers for M&A activity in 2022 include:

- Increase in divestments of Automotive dealer networks, technology components, and non-core divisions
- Increase in deals from Logistics and Transportation sectors
- Building resilience against supply chain disruptions
- Rising interest in geographical expansion and product innovation
- Evolving preferences in retail and consumer goods (e.g., omnichannel, delivery logistics, sustainable products, emerging tech, hot markets such as health and wellness)

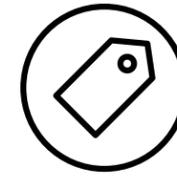
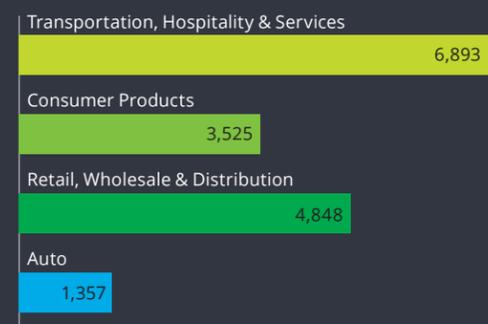
Consumer & Automotive deal value and volume (in billions of US dollars)



Deal value by sector (in billions of US dollars)



Deal volume by sector



## Consumer

### Forces shaping new normal conditions

#### Pressure on margins

- Surges in inflation, customer demand, supply chain disruptions, and higher labor costs are leading to rapid increases in production costs and pressure on margins.

#### Slower recovery in some subsectors

- Post-pandemic uncertainty continues to impact the leisure, travel, and hospitality sectors.
- Revenue losses in these sectors, originally from the pandemic but now from inflation, could contribute to an increase in sales of distressed assets and restructuring.

### Short-term responses

#### 1 Supply chain resilience

Companies could consider investing in contingency supply chains, this includes considering partnerships with new suppliers, as well as with private equity to bolster supply chain systems.

#### 2 Technology-led transformation

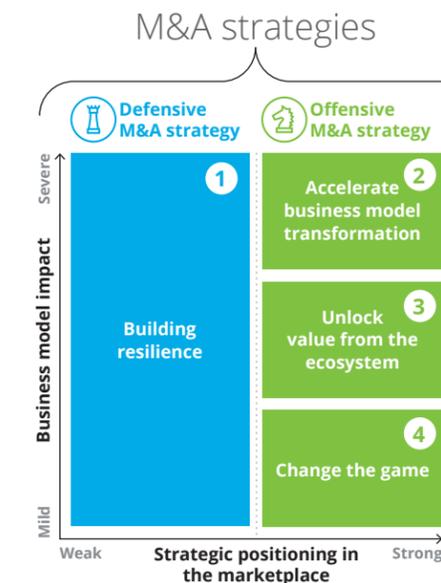
Digital transformation is fundamental to success. In addition to omnichannel capabilities, companies should consider investments in predictive demand analytics, fulfilment, and dynamic pricing.

#### Direct-to-consumer (D2C) purchases will increase

- D2C models will enable companies to increase customer-centricity through personalization, loyalty programs, and increased customer service levels.
- More companies will look to be active in the D2C space and acquire platforms to increase scale of distribution.

#### Sustainability and wellness influences purchasing behavior

- Consumers are increasingly willing to pay a premium for socially conscious products, ethical supply chains, and wellness-focused offerings.
- This trend is creating opportunities for new revenue streams.



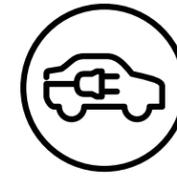
### Medium-term responses

#### 3 Pursue alliances

Companies could consider alliances with their peers to alleviate supply side pressure, as well as cross-sector arrangements with sectors like technology to enhance customer experience.

#### 4 Growth investments

Companies could consider an ESG-aligned investment strategy to target assets such as sustainable product design and packaging, as well as, in emerging growth segments such as personalized nutrition and carbon-neutral travel.



# Automotive

## Forces shaping new normal conditions

### Connectivity is becoming standard

- The majority of cars are expected to have smart connectivity by 2035, driven by consumer demand and regulation.
- Data generated by 5G connectivity will be valuable and utilized by OEMs, dealers, fleet owners, and consumers.

### EV and fuel-cell ecosystems

- The EV market and associated ecosystem are expected to grow in double digits driven by customer preferences, favorable regulation, private capital investment, and the strategic push by OEMs.
- Hydrogen fuel-cell powered vehicles are starting to make up a more meaningful portion of the market.

### Short-term responses

#### 1 Safeguard supply chain

Supply chain disruptions may prompt OEMs to vertically integrate critical aspects such as chips and divest auxiliary services such as auto-financing, retail insurance, etc. to facilitate these critical investments.

#### 2 Agile business models

Companies should consider investments across the entire value chain to make the business more agile; these include opportunities for digitization, flexible manufacturing, and smart factories.

### Shared mobility and mobility-as-a-service continues to grow

- Shared mobility market continues to grow, driven by need for convenience, lower costs, and environmental concerns.
- Customers are using mobility platforms in an increasing variety of ways, including for grocery delivery, courier, and others.

### Investment for AV remains steady

- Both OEMs and tech companies are investing heavily in autonomous vehicle (AV) technologies. However, mass adoption remains distant owing to safety concerns.
- Stakeholders need to work closely with governments to shape future regulations that strike the balance between innovation and safety.



### Medium-term responses

#### 3 Software-centric partnerships for CASE development

Access to a comprehensive software suite is critical to success for driving Connected, Autonomous, Shared, and Electric (CASE) products. OEMs should explore alliances and partnerships to drive this forward.

#### 4 Future portfolio realignment

Companies need to continue building a future portfolio that aligns major shifts in consumer trends. This could include value chain opportunities such as smart infrastructure, recycling, and sustainable materials.

# Life Sciences & Health Care

## Observations

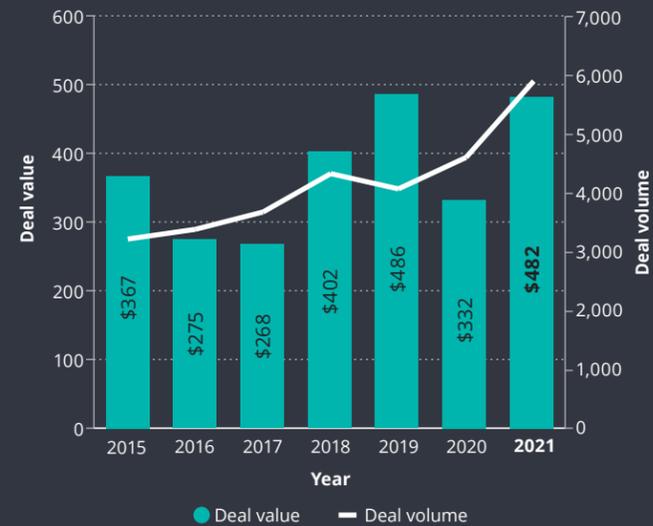
Life Sciences & Health Care (LSHC) recorded a 45% YoY growth in deal value to reach \$482B in 2021.

The rise in value was primarily driven by the strong 132% YoY growth in the large deals segment (≥\$1B to \$10B) to a total \$217B in 2021.

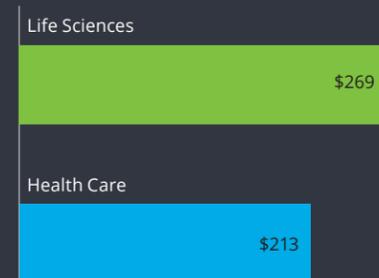
North America was the largest contributor among the regions with 2,315 deals worth \$303B. Europe, with \$94B worth of deals, was a distant second in terms of values, while Asia Pacific was second with 1,907 transactions, in terms of volume.

Among the subsectors, Health Care saw the highest YoY increase in M&A value and volume. Deal values rose by 121% to reach \$213B and deal volume rose by 33% to reach 3,463 transactions.

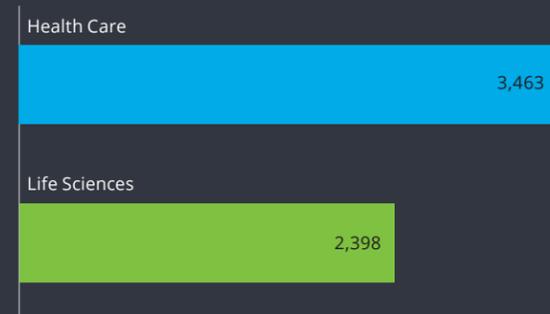
Life Sciences & Health Care deal value and volume (in billions of US dollars)



Deal value by sector (in billions of US dollars)



Deal volume by sector



# Life Sciences & Health Care

## Forces shaping new normal conditions

### Digitization of health care

- The potential for new variants, speed of vaccination, and changing government approaches all contribute to pandemic uncertainties.
- Consumers got used to alternative service delivery methods during the pandemic, and there could be an increased demand for virtual care and automated medication management.

### AI will fundamentally impact business models

- AI and big data create the opportunity to further tailor care to specific patients and treat diseases earlier in their life-cycle.
- The rise of virtual and lower-cost sites of care means that some providers may be stranded with more physical assets than needed.

### Mental health will continue to be a priority

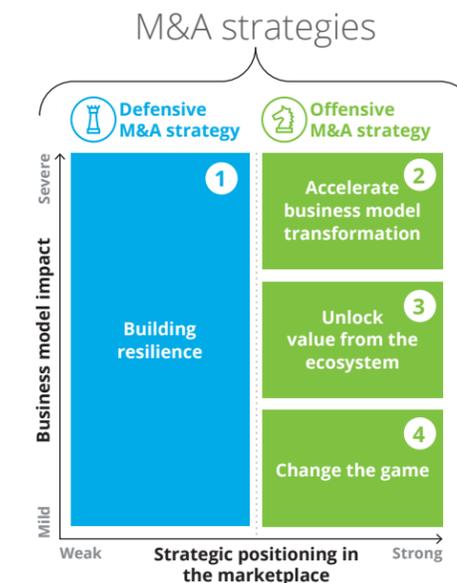
- Demand for mental health treatments is growing due to reduced stigma, pandemic effects, and other behaviors.
- Models of care that incorporate mental health into existing treatment centers will increase.

### Industry economics may shift

- A focus on value-based and outcome-based care may change the way companies generate revenue.
- New business models would focus on early-detection and preventive care.

## Short-term responses

- 1 Mitigating uncertainties**  
Companies need to potentially divest non-core assets and invest in capabilities such as supply chain, alternative service delivery, and next-gen therapeutics.
- 2 Technology-led business model transformation**  
Investments in digitalization and remote service capabilities will reduce delivery costs, increase patient access, and augment inpatient services. LSHC companies are likely to invest in R&D enabling technologies such as AI-driven drug discovery.



## Medium-term responses

- 3 Integrating patient-care value chain**  
Integrating with insurers, providers, and retailers would improve patient care and provide cost efficiencies; data sharing and trust will prove to be critical in delivering value from such ecosystem partnerships.
- 4 Technology-enabled preventive care**  
The convergence between technology and health is enabling new business opportunities in areas such as health monitoring, preventive and predictive care. LSHC companies should have an active investment strategy for such emergent spaces.

# Financial Services

## Observations

The Financial Services sector recorded \$1,117B worth of deals in 2021, registering a 62% YoY growth the highest growth rate in the last five years.

This rise was primarily due to a 105% YoY growth in the US, to \$407B in 2021.

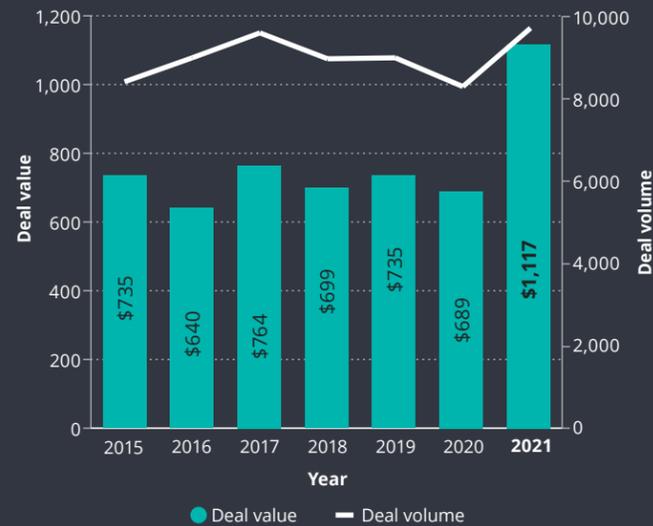
Deal volumes also saw a YoY rise of 17% to 9,688 transactions in 2021.

Europe emerged as the most active region in terms of deal volume by recording 3,221 transactions followed by Asia Pacific (2,914 deals) in 2021.

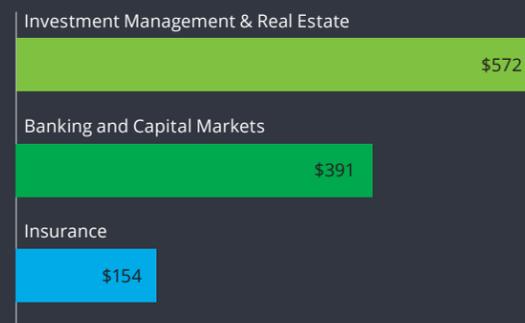
Among the subsectors, Investment Management & Real Estate registered the largest absolute value growth to \$572B, primarily driven by a large rise in REIT deals to \$471B in 2021 from \$260B in 2020.

The Financial Services sector is expected to continue witnessing robust M&A due to strong top-line growth, high profitability, and positive macro trends such as high savings rates and anticipated high inflation.

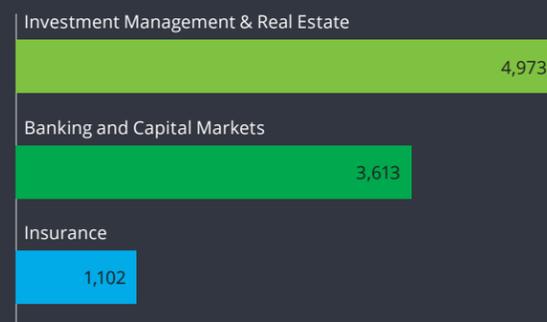
Financial Services deal value and volume  
(in billions of US dollars)



Deal value by sector  
(in billions of US dollars)



Deal volume by sector



# Banking & Securities

## Forces shaping new normal conditions

### Skewed balance sheets are resulting in declining ROEs

- Banks have divested non-core assets from their portfolios, resulting in a skewed balance sheet with legacy products.
- Growth will be required to deliver more stable ROEs.

### Regulation will continue to influence the market

- Regulators are expected to respond to the rapid developments in the sector with the introduction of new rules, especially in the areas of digital assets, climate, and financial inclusion.
- Regulatory convergence is increasingly desired by central bankers and could have a major impact on competition and market strategies.

## Short-term responses

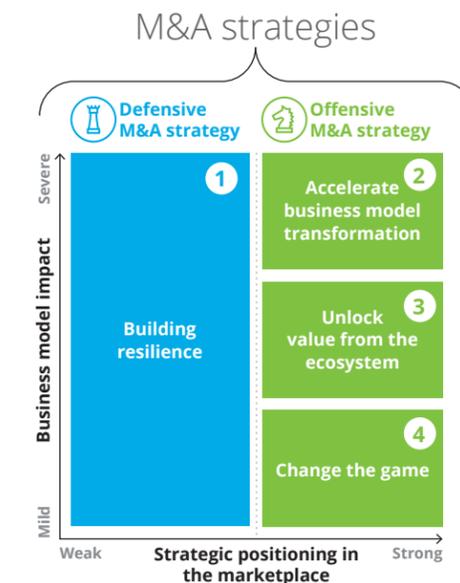
- 1 Divestment of non-core assets**  
Companies could consider divesting underperforming loan portfolios and non-core divisions to raise capital and improve efficiency.
- 2 Technology-led business transformation**  
Investments and acquisitions of new technologies (e.g., digital payments, e-trading platforms) will be critical to position banks to compete in the future.

### Stakeholders demand ESG commitments

- Increased scrutiny from clients, regulators, investors, and employees on companies' ESG commitments will impact business models for financial institutions.

### Digital assets, blockchain technology, and cybersecurity are increasing in importance

- The introduction of new, disruptive products and technologies has led to banks investing heavily in new technologies and creating alliances with partners that have broader digital capabilities.
- Banks are shifting toward integrated platforms and cloud solutions to improve cybersecurity and enhance analytical capabilities.



## Medium-term responses

- 3 Cross-selling opportunities**  
Banks need to establish alliances outside of their core sector with players from technology, retail, health, and others to cross-sell new services to a wider customer base, introduce new capabilities, and improve utilization of their current assets.
- 4 Growth investments**  
Banks also need to consider acquiring high-growth, innovative businesses in areas like cybersecurity, fintech platforms, blockchain, AI, and others in adjacencies that could, in time, become the new core.



# Investment Management

## Forces shaping new normal conditions

### Shifts in customer demand are driving new business models

- Customers are increasingly demanding specialized and value-add services.
- Firms are using digital channels and process automation to enhance client interactions.

### ESG will impact asset allocation

- The focus on ESG will impact investment allocation decisions, investment transparency, regulatory reporting, and product marketing decisions. It will also likely drive product innovation in this segment.

### Regulators are focusing on customer protection

- Regulators are likely to focus on increased client protections in areas such as data privacy, fee transparency, product unbundling, and ESG offerings.
- Lack of alignment could result in regulation asymmetry across jurisdictions.

### Performance pressures are impacting allocations

- The alternatives market has gained wide acceptance as it offers portfolio diversity and higher returns. This is placing further pressure on allocations and integration with traditional asset classes.

### Demand for digital assets will require new capabilities

- Increasing interest in digital assets (e.g., crypto, NFTs) requires firms to develop or acquire new technologies and product offerings.
- These new offerings will also increase the importance of cybersecurity capabilities.

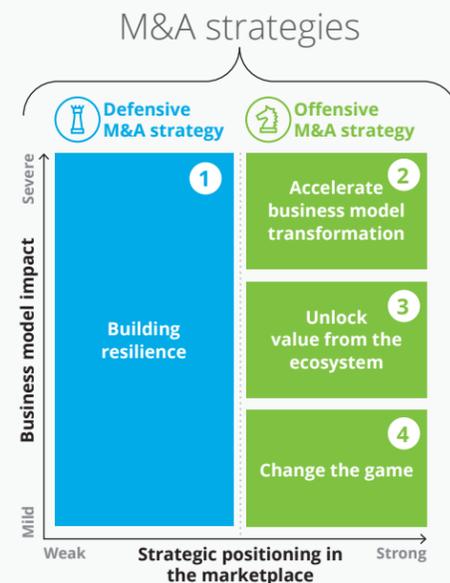
## Short-term responses

### 1 Consolidation

Sector is ripe for further consolidation and in recent months, major players have been rapidly consolidating in response to falling fees and lack of growth.

### 2 Bolt-on capabilities

Investment management firms are pursuing M&A to acquire new capabilities such as ESG investment specialism and technologies such as automated portfolio platforms (robo-advisors).



## Medium-term responses

### 3 Nontraditional alliances

Firms need to consider alliances outside of their core activities to expand their current client base, skills, and product offerings.

### 4 Future portfolio

Firms also need to consider acquisitions of high-growth, innovative businesses in adjacent growth areas such as crypto funds, NFTs, crypto asset management platforms, and others.



# Insurance

## Forces shaping new normal conditions

### Reduction in property and casualty (P&C) business volumes will drive innovation

- Reduction in traditional volumes and pricing pressures are forcing P&C insurers to focus on innovative offerings such as usage-based insurance and sensor-enabled analytics.

### ESG is more than a 'brand' play

- For insurance companies, ESG principles will underpin the new emotional contract.
- Insurance companies are uniquely placed to influence ESG mandates on global businesses given role underwriting industrial activities for other companies.

## Short-term responses

### 1 Portfolio rebalancing

Market uncertainties resulting from geopolitical conflict and the need for capital optimization may prompt insurers to divest non-core assets and exit underperforming markets.

### 2 Market consolidation

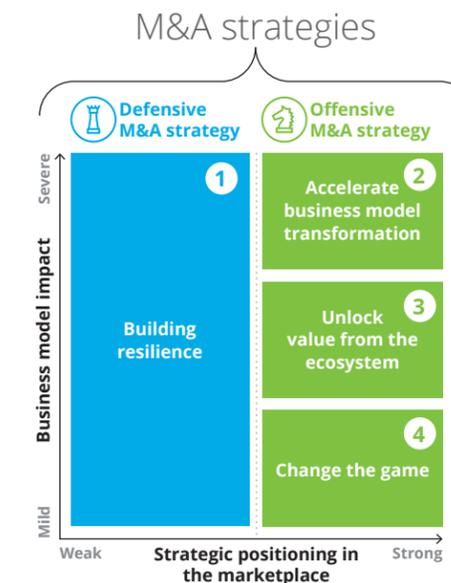
Costs of legacy business models and operating pressures are likely to drive consolidation in the market in order to capture economies of scale and accelerate transformation by investing in digital assets and analytics capabilities.

### Customer centric business models

- Customers are increasingly expecting an elevated customer experience, forcing investment in analytics and new product development.
- Convergence of insurance with digital health platforms is giving rise to new customer product categories and untapped market segments.

### Emerging talent model

- Pressure on growth is forcing insurers to develop innovative operational solutions.
- This is leading to investment and hiring of skilled workforce in new areas such as digital, cloud, automation, risk controls, and customer analytics.
- Insurers need to foster a flexible and agile workplace culture for such fresh talent to thrive.



## Medium-term responses

### 3 New alliances

Insurers could actively look for partnerships in the technology, health, and communication sectors to address needs for a holistic solution.

### 4 InsurTech segment

After years of investment and scaling up, the InsurTech sector is at a stage of maturity where consolidation is to be expected; insurers could also focus on the new segment of InsurTech that uses third-party data to disrupt underwriting and pricing.

# Technology, Media & Telecom

## Observations

Technology, Media & Telecom (TMT) was the most active sector with \$1.3T worth of deals in 2021.

North America was the most active region for TMT deals, with \$829B worth of deals in 2021. Asia Pacific was at a distant second, with deals worth \$236B.

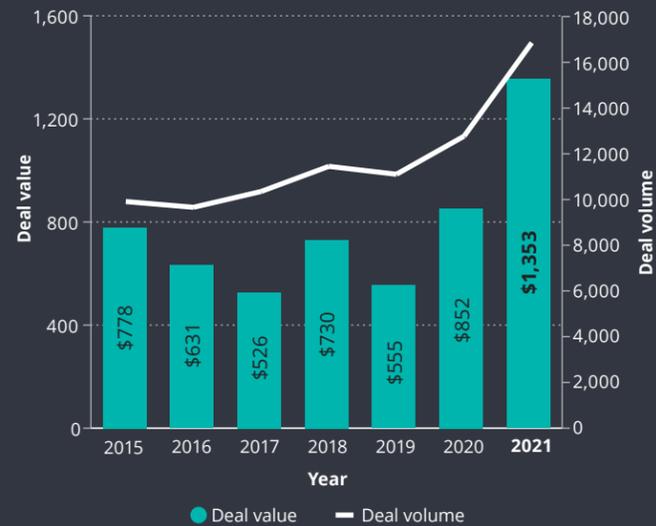
Among the subsectors, Technology (\$972B; 13,660 deals) accounted for 72% by value and 81% by volume of the overall deals within the sector.

Private equity investors were highly active in the Technology subsector with deals worth \$503B, the highest among all the subsectors.

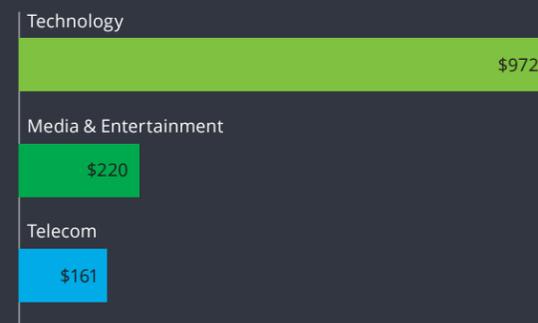
The rise in spend toward information security and enterprise software driven by remote working is expected to propel drive to Technology M&A in 2022, while in the Telecom sector, many have divested their towers and now will be looking for fresh growth opportunities.

However, going forward, tighter foreign direct investment controls and national security screening may pose a challenge to technology deals.

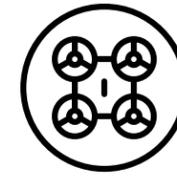
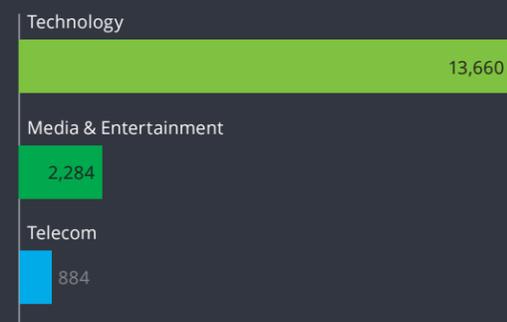
Technology, Media & Telecom deal value and volume (in billions of US dollars)



Deal value by sector (in billions of US dollars)



Deal volume by sector



## Technology

### Forces shaping new normal conditions

#### Data sharing creates value but raises security concerns

- Cloud and digital transformation have led to data sharing within and across companies.
- Increased concern around data privacy and security creates a headwind for new business models.

#### Semiconductor chip shortage likely to last through 2022

- Digital transformation is driving demand for chip designs with innovative technologies.
- This increased demand, coupled with the pandemic, has resulted in a supply shortage likely to last until 2023.

### Short-term responses

#### 1 Consolidation across the cloud value chain

Technology companies need to improve their competitive positioning through holistic platform solutions as opposed to point-based solutions. This could drive M&A consolidation across the cloud value chain and supplier base.

#### 2 Specialist software vendors

Scaled HR and other ERP specialist technology companies may look to expand their offering to adjacencies such as ESG, mental health, and wellbeing.

#### Flexible working is forcing companies to innovate

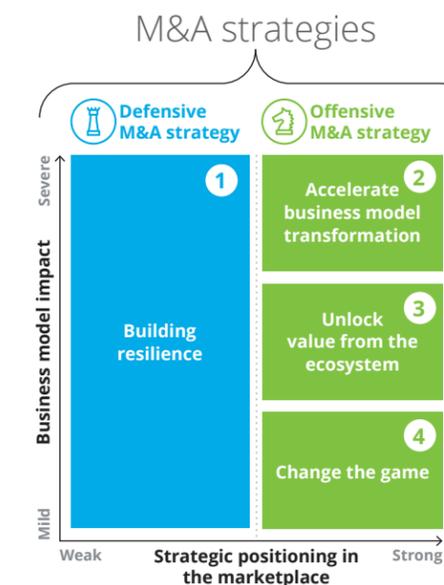
- ERP, Finance, HR, and other specialist software are becoming more strategic and less administrative.
- Businesses will need to innovate on functionalities and protection as remote working becomes more prevalent.

#### Green technology

- The ICT sector is under pressure to reduce emissions and make its products more sustainable. This is likely to spur greater investments in green data centers, fresh product design, and other sustainability areas.

#### Cross-environment integration and use of AI are driving investments

- Leading technology companies are investing heavily in creating interoperability across cloud and on-prem IT environments.
- AI is being used in IT operations (AIOps) to orchestrate workloads and automate issue detection and resolution.



### Medium-term responses

#### 3 Proliferation of alliances

Technology is driving innovation across all sectors, and technology companies could explore alliances and JV models as an alternative pathway to access opportunities arising from technology-enabled convergence across sectors.

#### 4 Frontier investing

The technology sector is likely to drive innovation through investments in green data centers, material science, spatial computing to drive AR/VR, AI, quantum computing, and many others.



# Media & Entertainment

Forces shaping new normal conditions

## Competition in D2C could drive spending on exclusive content creation

- Proliferation of streaming platforms is resulting in increased churn, forcing providers to tailor content and pricing models.
- Saturation in the US market driving streaming providers to push further into international markets.

## Data integration should create value

- DTC content creates the ability for companies to gather additional customer information.
- Data integrations across different offerings will enable a unified view of the customer that will drive content recognition and increase ad value.

## Generational divide regarding alternative types of entertainment

- Gen Z have higher preference for video gaming and user-generated content over traditional TV and movies.
- Increased preference for user-generated content changes consumption patterns and gives rise to new platforms.

## Socially conscious media

- The media sector is directly exposed to shifts in social trends, and there is heightened customer pressure for the sector to become, as well as to produce, content that is socially aware, equitable, and diverse.

## Metaverse to drive convergence in content

- Media and entertainment companies will be central to the metaverse, which will result in a convergence in traditional video content, video games, technology, and advertising.
- Immersive franchises with owned IP will be able to create deep engagement and new monetization mechanisms.

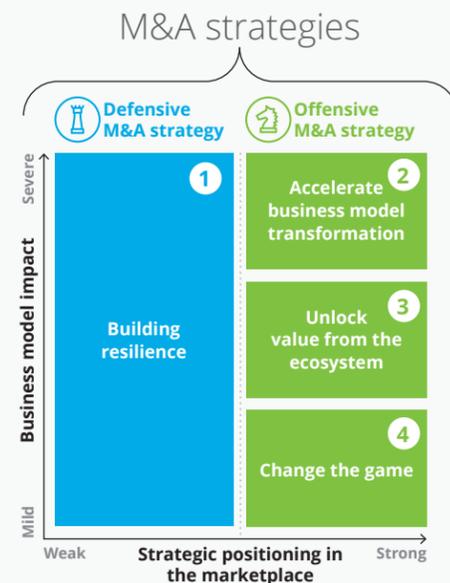
### Short-term responses

#### 1 Customer retention

Companies could use M&A activities to secure premium content, acquire/retain customers, and bolster technological capabilities.

#### 2 Investment in new capabilities

To capitalize on the disaggregation of traditional distribution networks resulting from migration to DTC media, M&E companies should and acquire new capabilities to allow them to capitalize on their new relationship with the customer.



### Medium-term responses

#### 3 Alliances and partnerships

Emerging areas such as the metaverse are increasingly dependent on multiparty marketplaces and ecosystems that span content creators, platforms, and consumers. The need for scale across customers, platforms, franchises/content, and technology is likely to drive landmark partnerships in the future.

#### 4 Future portfolio

Advances in technologies like AI, machine-recognition, etc. are rapidly changing the media production and consumption landscape and are likely to spur greater investments in these areas.



# Telecom

Forces shaping new normal conditions

## Governments driving the growth of global fixed wireless access (FWA) connections

- Regulators now view wireless as an acceptable alternative to wired and governments have increased funding of broadband, resulting in more operators considering 5G enhanced FWA.

## 5G gaining traction

- Global carriers are expected to show distinct 5G performance improvements in the coming months.
- Improved performance will result in increased demand for 5G-enabled devices and service.

### Short-term responses

#### 1 Competition for telecommunications infrastructure assets

Both financial and strategic buyers are competing for infrastructure assets; carriers will likely divest non-priority assets, potentially including large-scale data centers, to fund other initiatives (e.g., 5G, IoT).

#### 2 Telecom companies will continue to divest media assets

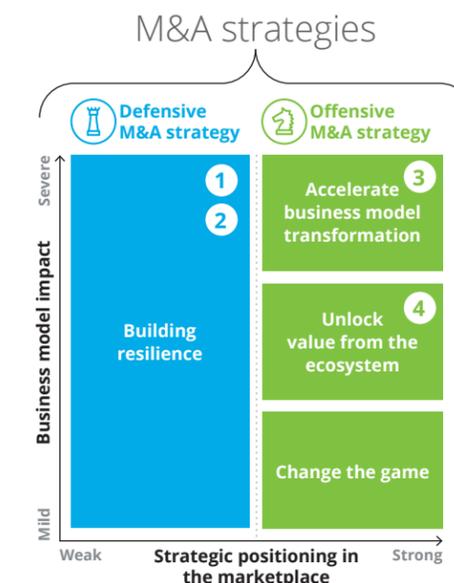
Following a run on acquisitions of media companies, telecom companies are refocusing on core capabilities.

## Subscriber growth and smartphone adoption likely to be sustained at elevated levels

- Underpenetrated demographics (<13 and >50 years old) are likely to gain net new subscribers and increase use of smartphones to facilitate remote learning and video calling.
- Government subsidies are providing for connectivity needs.

## Metaverse growth and cloud migration to drive traffic volume increase

- Telecommunications infrastructure and services providers are likely to benefit from greater traffic (20x by 2032) across networks, driven by metaverse applications; however, ability to monetize increased traffic remains challenging.



### Medium-term responses

#### 3 Adoption of 5G and cloud

Greater adoption of 5G should drive new products and services and, in turn, could spur telcos to acquire new capabilities such as ones to make cloud migration more feasible and accelerate adoption of multi-cloud environments.

#### 4 Partnerships

Telecom companies may increasingly partner with their peers as an alternative to M&A to drive operational efficiency and increase investment in areas like FTTH. In addition, they should also explore cross-sector partnerships with health and financial sector to drive new consumer opportunities.

# Conclusion

In the past decade, leaders had to navigate their companies through momentous change, from the great financial crisis to the pandemic. The months and years ahead do not promise an easy ride; the ongoing geopolitical tensions and economic challenges will likely require corporate leaders to display vision and decisiveness. They may be expected to inspire their organizations to embrace change in a way that opens new strategic possibilities and inspires trust.

The importance of M&A as an enabler of change has been demonstrated by the record-breaking activities during one of the most difficult times in business history. Looking ahead, we anticipate traditional M&A, as well as alternatives such as alliances and partnerships, to not just play a pivotal role but also evolve to meet new expectations and conditions. Successful companies will heed the lessons from the past while remaining resolutely focused on the horizon.

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